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Fairbanks North Star Borough, Alaska  
\$14,164,000  
General Obligation School Bonds  
2004 Series G



Sale Date: March 17, 2004  
Bartle Wells Associates

Official Statement

**Fairbanks North Star Borough, Alaska**  
**\$14,164,000**  
**General Obligation School Bonds**  
**2004 Series G**



**Dated:** Date of delivery  
**Book-Entry Only**

**Due:** October 1, as shown below

**Ratings: Insured:** Fitch: AAA                      Moody's: Aaa                      Standard & Poor's: AAA  
**Underlying:** Fitch: A+                      Moody's: A2                      Standard & Poor's: A+

**Insurance:** The scheduled payment of principal and interest on the Bonds when due will be insured under a financial guaranty insurance policy to be issued concurrently with the delivery of Bonds by XL Capital Assurance Inc.

**Tax Exemption:** Interest on the Bonds is excluded from gross income for federal income tax purposes. Page 4

**Redemption:** The Bonds are subject to redemption prior to their stated date of maturity. Page 1

**Security:** To secure payment of the Bonds, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. In addition, the Bonds are eligible for reimbursement of 70 percent of debt service from the State of Alaska. Page 2

**Purpose:** The Bonds will be used to finance school improvements in the Borough. Page 14

**Interest Payment Dates:** April 1 and October 1, beginning October 1, 2004.

**Closing:** On or about March 29, 2004.

**Denominations:** \$5,000 or multiple thereof, except for one bond in the amount of \$4,000 due in 2004.

**Registrar/Paying Agent:** U.S. Bank National Association, Seattle, Washington.

**Bond Counsel:** Preston Gates & Ellis LLP, Seattle, Washington.

**Borough Attorney:** René Broker, Fairbanks, Alaska.

**Financial Advisor:** Bartle Wells Associates, Berkeley, California.

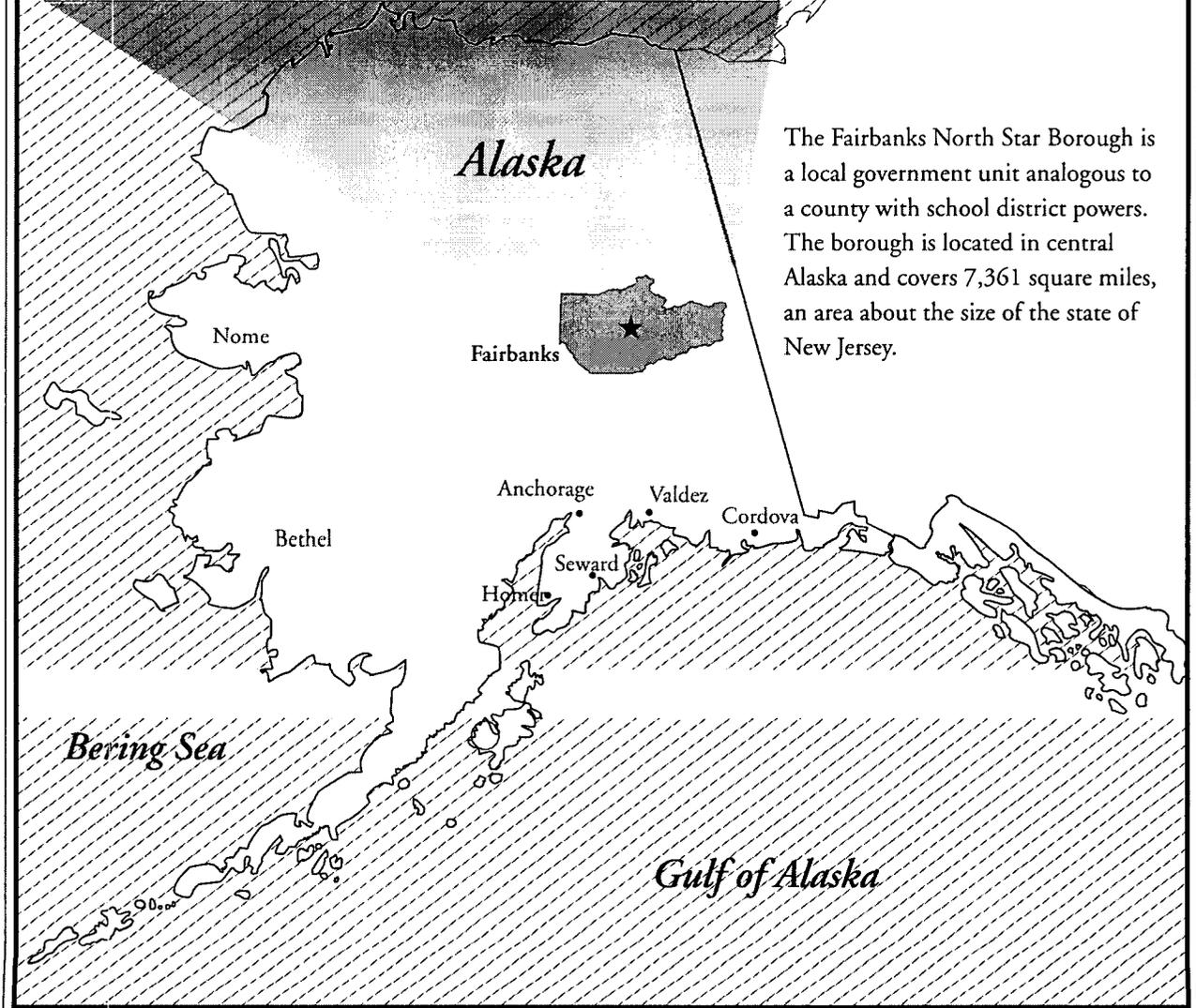
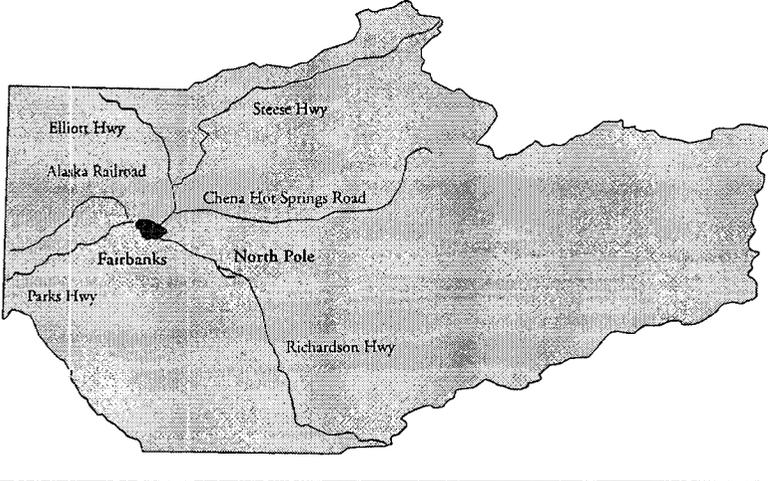
Year October 1	Principal Amount	Interest Rate	Yield	CUSIP 303531	Year October 1	Principal Amount	Interest Rate	Yield	CUSIP 303531
2004	\$529,000	3.125%	1.00%	UE5	2014	\$685,000	3.400%	3.40%	UQ8
2005	540,000	3.125%	1.20%	UF2	2015	710,000	3.500%	3.50%	UR6
2006	550,000	3.125%	1.35%	UG0	2016	740,000	3.600%	3.65%	US4
2007	560,000	3.125%	1.70%	UH8	2017	770,000	3.750%	3.75%	UT2
2008	570,000	3.125%	2.00%	UJ4	2018	805,000	3.900%	3.90%	UU9
2009	585,000	3.250%	2.30%	UK1	2019	840,000	4.000%	4.00%	UV7
2010	600,000	3.250%	2.60%	UL9	2020	880,000	4.000%	4.10%	UW5
2011	620,000	3.250%	2.85%	UM7	2021	915,000	4.125%	4.15%	UX3
2012	640,000	3.250%	3.10%	UN5	2022	960,000	4.200%	4.20%	UY1
2013	660,000	3.250%	3.25%	UP0	2023	1,005,000	4.250%	4.25%	UZ8

The official statement, as supplemented or corrected by the Borough from time to time, is deemed final by the Borough as of the date hereof (or of any such supplement or correction), for purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission.

This official statement is dated March 17, 2004.

**Morgan Stanley DW Inc.**

# FAIRBANKS NORTH STAR BOROUGH



The Fairbanks North Star Borough is a local government unit analogous to a county with school district powers. The borough is located in central Alaska and covers 7,361 square miles, an area about the size of the state of New Jersey.

**Official Statement**  
**Fairbanks North Star Borough, Alaska**

Mail: PO Box 71267  
Fairbanks, Alaska 99707-1267  
Location: 809 Pioneer Road  
Fairbanks, Alaska 99701-2813  
Incorporated January 1964

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Jim Whitaker, *Mayor*

**Borough Assembly Members**

Hank Bartos, *Presiding Officer*

Eileen Cummings, *Deputy Presiding Officer*

Charlie Rex	Terry Aldridge
Tim Beck	Guy Sattley
Cynthia Henry	Bonnie Williams
Earl Romans	Garry Hutchison
Randy Frank	

Mona Lisa Drexler, *Borough Clerk*

**School Board Members**

Bill Burrows, *President*

Bob Coghill, *Vice President*

Joe Blackburn	Royce Chapman
Wendy Dominique	Jennifer Schmidt
Bart LeBon	

**Borough Administration**

Jim Holt, *Chief of Staff*

Michael E. Lamb, *Chief Financial Officer*

René Broker, *Borough Attorney*

**Professional Services**

Preston Gates & Ellis LLP, Seattle, *Bond Counsel*

Bartle Wells Associates, Berkeley, *Financial Advisor*

U.S. Bank National Association, Seattle, *Registrar/Paying Agent*

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This official statement provides information about the issuer and its bonds. The official statement includes:

1. data supplied by the issuer and by others, as indicated herein;
2. estimates or projections which may or may not be realized and which should not be construed as assertions of fact; and
3. summaries and descriptions of legal and financial documents, or their contents, which do not purport to describe such documents completely and which are made expressly subject to the full provisions of the documents cited.

This official statement does not constitute a recommendation, express or implied, to purchase or not to purchase these bonds or any other previous bonds of the issuer.

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## THE BONDS

**Description:** Fairbanks North Star Borough  
\$14,164,000 General Obligation School Bonds  
2004 Series G

**Date:** Date of delivery

**Denomination:** \$5,000 or multiple thereof, except for one bond in the amount of \$4,000 due in 2004.

**Maturities:** October 1, 2004 through October 1, 2023 in the amounts shown on the cover of this official statement.

**Interest:** Interest is payable on April 1 and October 1 of each year to the respective dates of maturity, beginning October 1, 2004.

**Registrar / Paying Agent:** The paying agent and registrar for the bonds will be U.S. Bank National Association, Seattle, Washington.

**Payment:** The Bonds will be executed, sold, and delivered in fully registered form, without coupons. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, as the initial securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers of the Bonds will not receive certificates representing their ownership interests in the Bonds purchased. Principal and interest payments with respect to the Bonds are payable directly to DTC by the paying agent. Upon receipt of such payments of principal and interest, DTC in turn is obligated to distribute such payments to the beneficial owners of the Bonds. See Appendix B - "Book-Entry System."

**Optional Redemption:** The Bonds maturing on or before October 1, 2012 are not subject to optional redemption prior to maturity. The Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the Borough on any date on or after October 1, 2012, as a whole or in part, from any source of available funds, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds to be prepaid), plus accrued interest to the date of redemption:

<b>Redemption Period</b>	<b>Redemption Price</b>
From October 1, 2012 through September 30, 2013	100.5 percent of par
On or after October 1, 2013	100.0 percent of par

**Authority for Issuance**

The Bonds are part of \$42,264,000 in school bonds authorized by Ordinance 2002-34 and approved by Borough voters on October 8, 2002. \$2,600,000 of the total amount of authorized bonds were sold in December 2002; an additional \$13,500,000 of the authorized bonds were sold in April 2003.

**Additional Bonds**

In calendar year 2005, the Borough intends to issue the remaining \$12,000,000 in bonds that have been approved by voters but not yet issued.

**Purpose**

Proceeds of the Bonds will be used to finance school improvements, as more fully described in the section "The Construction Program."

**Security**

The Bonds are general obligations of the Borough. To secure payment of the Bonds, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same shall become due. In addition, the State of Alaska partially reimburses municipalities for debt service on bonds issued for state-approved school construction projects. The Bonds are eligible for reimbursement of 70 percent of debt service. See "State Aid to Education."

## Debt Service Schedule

The following table shows the debt service payments on the Bonds by fiscal year.

■ **Fairbanks North Star Borough**  
**\$14,164,000 General Obligation School Bonds**  
**Debt Service Schedule**

FYE	30-Jun	Coupon	1-Oct		1-Apr		FY total
			Interest	Principal	Total	Interest	
2005	3.125%	\$258,563.86	\$529,000	\$787,563.86	\$247,456.88	\$1,035,020.74	
2006	3.125%	247,456.88	540,000	787,456.88	239,019.38	1,026,476.25	
2007	3.125%	239,019.38	550,000	789,019.38	230,425.63	1,019,445.00	
2008	3.125%	230,425.63	560,000	790,425.63	221,675.63	1,012,101.25	
2009	3.125%	221,675.63	570,000	791,675.63	212,769.38	1,004,445.00	
2010	3.250%	212,769.38	585,000	797,769.38	203,263.13	1,001,032.50	
2011	3.250%	203,263.13	600,000	803,263.13	193,513.13	996,776.25	
2012	3.250%	193,513.13	620,000	813,513.13	183,438.13	996,951.25	
2013	3.250%	183,438.13	640,000	823,438.13	173,038.13	996,476.25	
2014	3.250%	173,038.13	660,000	833,038.13	162,313.13	995,351.25	
2015	3.400%	162,313.13	685,000	847,313.13	150,668.13	997,981.25	
2016	3.500%	150,668.13	710,000	860,668.13	138,243.13	998,911.25	
2017	3.600%	138,243.13	740,000	878,243.13	124,923.13	1,003,166.25	
2018	3.750%	124,923.13	770,000	894,923.13	110,485.63	1,005,408.75	
2019	3.900%	110,485.63	805,000	915,485.63	94,788.13	1,010,273.75	
2020	4.000%	94,788.13	840,000	934,788.13	77,988.13	1,012,776.25	
2021	4.000%	77,988.13	880,000	957,988.13	60,388.13	1,018,376.25	
2022	4.125%	60,388.13	915,000	975,388.13	41,516.25	1,016,904.38	
2023	4.200%	41,516.25	960,000	1,001,516.25	21,356.25	1,022,872.50	
2024	4.250%	21,356.25	1,005,000	1,026,356.25		1,026,356.25	
Totals		\$3,145,833.24	\$14,164,000.00	\$17,309,833.24	\$2,887,269.38	\$20,197,102.62	

## Continuing Disclosure

In the Bond Ordinance, the Borough has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Borough. See Appendix C, "Continuing Disclosure Undertaking." The Borough entered into similar written undertakings under Securities and Exchange Commission Rule 15c2-12(b)(5) with respect to its 1996 Series U bonds, 1997 Series A bonds, 1999 Series B bonds, 2000 Series C bonds, 2001 Series D bonds, 2002 Series E bonds, and 2003 Series F bonds. The Borough has complied with these undertakings.

## Approval of Legal Proceedings

Legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Preston Gates & Ellis LLP, Bond Counsel, Seattle, Washington, whose approving legal opinion in substantially the form attached herein as Appendix D, will be delivered with the Bonds.

## **Tax Exemption**

**General:** In the opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code").

The Bonds are not private activity bonds and interest on the Bonds is not an item of tax preference for purposes of determining alternative minimum taxable income for individuals or corporations under the Code. However, interest on the Bonds is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code, as more fully described in this section under the heading "Alternative Minimum Tax on Corporations."

Interest on the Bonds is exempt from taxation by the State of Alaska, except for transfer, estate and inheritance taxes and except to the extent that inclusion of such interest in computing the corporate alternative minimum tax under Section 55 of the Code may affect the corresponding provisions of the State of Alaska corporate income tax.

Except as described herein, Bond Counsel expresses no opinion on any federal, state or local tax consequence arising with respect to ownership of the Bonds.

**Certain Federal Income Tax Consequences:** The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular bondowners. Prospective bondowners, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

***Alternative Minimum Tax on Corporations:*** Section 55 of the Code imposes an alternative minimum tax on corporations equal to the excess of the tentative minimum tax for the taxable year over the regular tax for that year. The tentative minimum tax is based upon alternative minimum taxable income, which is regular taxable income with certain adjustments, and is increased by the amount of certain items of tax preference. One of the adjustments is a portion (75 percent for any taxable year beginning after 1989) of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income (determined without regard to such adjustment and the alternative tax net operating loss deduction). Interest on tax-exempt obligations, such as the Bonds, is included in a corporation's adjusted current earnings.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for small business corporations that had average gross receipts of less than \$5 million for the 3-year period beginning after December 31, 1994. Such small business corporations will continue to be exempt from the corporate alternative minimum tax so long as their average gross receipts do not exceed \$7.5 million.

***Financial Institutions:*** The Code denies banks, thrift institutions and other financial institutions a deduction for 100 percent of their interest expense allocable to tax-exempt obligations, such as the bonds.

***Borrowed Funds:*** The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or when carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

***Property and Casualty Insurance Companies:*** The deduction for loss reserves for property and casualty insurance companies is reduced by 15 percent of the sum of certain items, including the interest received on tax-exempt bonds, such as the Bonds.

***Social Security and Railroad Retirement Benefits:*** The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest that are exempt from federal income tax.

**Branch Profits Tax:** Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Bonds.

**S Corporations:** Certain S corporations that have subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25 percent of which are passive investment income, which includes interest on tax-exempt obligations, such as the Bonds, may be subject to a tax on excess net passive income.

**Tax Treatment of Original Issue Premium:** Certain maturities of the Bonds may be reoffered to members of the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at an initial offering price that exceeds the stated redemption price payable at the maturity of such Bonds. Such Bonds (the "Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Premium Bond in the initial offering must be reduced each accrual period and upon the sale or other taxable disposition of the Premium Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial purchaser. No corresponding deduction is allowed for federal income tax purposes, however, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each accrual period (or shorter period in

the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules that use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Premium Bond.

The bond premium and federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of a Premium Bond that is not purchased in the initial offering or is purchased at a price other than the initial offering price for the Premium Bonds of the same maturity may be determined according to rules that differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

**Tax Treatment of Original Issue Discount:** Certain of the Bonds may have an initial public offering price which is less than the principal amount thereof payable at maturity (the "Discount Bonds"). As a result, the Discount Bonds will be considered to be issued with Original Issue Discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price at which a substantial amount of the maturity of the Discount Bonds is sold), and the principal amount payable at maturity of the Discount Bonds will be treated as Original Issue Discount. With respect to a taxpayer who purchases a Discount Bond at the initial public offering price (assuming it is the first price at which a substantial amount of the maturity of the Discount Bond is sold) and who holds such Discount Bond to maturity, the full amount of Original Issue Discount will constitute interest which is not includable in the gross income of the owner of such Discount Bond for federal income tax purposes and such owner will not, under present federal income tax law, realize taxable capital gain upon payment of such Discount Bond upon maturity.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of Original Issue Discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sales, redemption or payment at maturity). An owner of a Discount Bond who disposes of such Discount Bond prior to maturity should consult his tax advisor as to the amount of Original Issue Discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

The Original Issue Discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of a constant interest rate compounded at the end of each six-month period (or longer period from the date of original issue) ending October 1 and April 1 (with straight line interpolation between compounding dates).

A portion of the Original Issue Discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the Original Issue Discount will be included in the calculation of the corporation's alternative minimum tax liability. Corporate owners of

any Discount Bonds should be aware that the accrual of Original Issue Discount in each year may result in an alternative minimum tax liability although the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering, but at a price different from the first offering price at which a substantial amount of that maturity of the Discount Bonds was sold to the public, should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of Original Issue Discount in the case of subsequent purchasers of obligations such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of the Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

### **Absence of Litigation**

There is no action, suit, or proceeding of any nature now pending or, to the knowledge of the Borough, threatened to restrain or enjoin the sale, issuance, execution or delivery of the Bonds, or in any way contesting the validity of the Bonds or any proceedings of the Borough taken with respect to the sale or issuance thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Borough. Lawsuits and other claims incidental to the ordinary course of operations of the Borough are largely covered by the Borough's self-insurance designation on fund balance, claim accruals and reserves, and insurance purchased from private insurers and will not have a materially adverse effect upon the financial position of the Borough in the opinion of the Borough's management and, with respect to litigation, the Borough Attorney.

Upon delivery of the Bonds, the Borough will furnish a certificate, in a form satisfactory to Bond Counsel, to the effect that, among other things, there is no litigation pending in any court to restrain or enjoin the issuance or delivery of the Bonds or in any way contesting the validity or enforceability of the Bonds.

### **Purchaser of the Bonds**

The Bonds are being purchased by Morgan Stanley DW Inc. (the "Purchaser") at a price of \$14,164,000, plus accrued interest, and will be reoffered at a price of \$14,322,149.02. The applicable prices or yields are set forth on the inside cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial

offering price set forth on the inside cover hereof, and such initial offering price may be changed from time to time, by the Purchaser. After the initial public offering, the public offering price may be varied from time to time.

### **Bond Insurance Policy**

Concurrently with the execution and delivery of the Bonds, XL Capital Assurance Inc. will issue its financial guaranty insurance policy for the Bonds. The insurance policy guarantees the scheduled payment of principal of and interest related to the Bonds when due as set forth in the form of the policy included in Appendix E to this official statement.

### **Ratings**

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's ("S&P"), a division of The McGraw-Hill Companies have assigned their municipal bond ratings of AAA, Aaa, and AAA, respectively, to the Bonds, with the understanding that upon delivery of the Bonds a policy insuring the payment of principal and interest represented by the Bonds will be issued by XL Capital Assurance.

In addition, Fitch, Moody's, and S&P have assigned underlying ratings (without regard to the financial guaranty insurance policy) of A+, A2, and A+ respectively, to the 2004G Bonds.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, 650 California Street, San Francisco, California 94108; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's, 55 Water Street, New York, New York, 10041. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## **Miscellaneous**

The summaries or descriptions of provisions of the Bond Ordinance, and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof. They do not constitute complete statements of such documents or provisions and reference is hereby made to the complete documents relating to such matters. For further information, the Borough will furnish copies of such documents or provisions upon request.

At the time of payment for and delivery of the Bonds, the Borough will provide a certificate executed by the proper officer of the Borough to the effect that to the best of his knowledge and belief the statements in the official statement as of its date and as of the date of its delivery are true and correct in all material respects and the official statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made, not misleading.

## **Execution of the Official Statement**

The execution and delivery of this official statement on behalf of the Borough by its Chief Financial Officer has been duly authorized by the Borough Assembly.

/s/ Michael E. Lamb

Michael E. Lamb, CPA, CGFM  
Chief Financial Officer

## **FAIRBANKS NORTH STAR BOROUGH**

### **Organization**

The Borough is a second-class borough, incorporated in 1964 under the laws of the State of Alaska. An organized borough is a unit of regional local government similar to a combination of a county and a school district. A borough generally encompasses a large geographical area and may include incorporated cities and fringe urbanized areas. All areas of the state not within an organized borough constitute a single unorganized borough, which is administered by the state.

Alaska has three classes of boroughs: first, second, and third. They differ in the mandatory and optional powers and duties they assume. Each organized borough is also a school district and is required to establish, maintain, and operate a system of public schools on an areawide basis. Areawide functions are exercised by a borough both inside and outside cities. Each organized borough is responsible for the property assessment and collection of all property taxes levied within its boundaries. First- and second-class boroughs are also responsible for areawide planning, platting, and zoning. Boroughs differ from counties in most states in that the boroughs are not responsible for court and state law enforcement functions, welfare, recording of deeds, or major highway construction and maintenance, which are state responsibilities in Alaska.

The Borough's governing body is an eleven-member assembly, elected at large for staggered three-year terms. The assembly elects one of its members annually to serve as presiding officer. Assembly members are limited to two consecutive three-year terms. The Borough's chief executive officer is the mayor, who is elected for a three-year term. The mayor has no vote, but may participate in assembly meetings, introduce legislation and veto assembly actions. The mayor is also limited to two consecutive three-year terms. The Borough is organized into administrative departments, each supervised by a department head. A chief of staff, appointed by the mayor, serves as the Borough's chief administrator.

Jim Whitaker was elected Borough mayor in October 2003. From 1995 – 1998, he served on the Fairbanks City Council. From 1999-2003, he served in the Alaska State House of Representatives. While in the State House of Representatives, Mr. Whitaker sat on numerous committees, and chaired the Special Committee on Oil and Gas as well as several finance subcommittees. Mr. Whitaker received a degree in journalism from the University of Oregon.

Michael Lamb is the chief financial officer (CFO) of the Borough. He received a degree in Business Administration from the University of Washington and is a Certified Public Accountant and a Certified Government Financial Manager. He has over 13 years' experience as a chief financial officer for municipalities and has served as the Borough's CFO for the last 5½ years. Prior to that, for almost 9 years, Michael was the CFO for the City of St. Paul. He is very active in professional organizations and currently serves as a Board Member and President of the Alaskan Municipal League Investment Pool and is a co-chair for the Alaska Municipal League Revenue and Finance Legislative Subcommittee. Michael is also a past president of the Alaska Government Financial Officers Association

## **Responsibilities**

As a second-class borough, the Borough may acquire additional powers after voter approval or, where authorized by statute, by adoption of an ordinance. Any areawide power assumed by a borough must be exercised inside and outside cities.

### **Mandatory Areawide Responsibilities:**

Assessment and tax collection  
Education  
Planning, platting, and zoning

### **Other Areawide Responsibilities Exercised:**

Air pollution control	Libraries
Animal control	Limited health and social services
Child care assistance	Parks and recreation
Disaster and civil defense	Public transportation
Emergency communications (enhanced 911)	Solid waste disposal
Flood control	

Areawide hospital powers have been voter approved; however, this power has not been exercised except to provide conduit financing for the hospital.

The Borough also provides fireworks control, emergency medical services, and economic development on a non-areawide basis, outside the cities of North Pole and Fairbanks. The Borough provides solid waste collection services outside Fairbanks, which has its own solid waste collection service.

The Borough may also establish service areas outside the cities either upon petition by property owners or the introduction of an ordinance, followed by assembly and voter approval. Service areas are smaller units within the Borough boundaries, created to provide certain services or different levels of service. The Borough may levy additional taxes within service areas and disburse them for payment for services within that area. Service areas may be formed to provide any municipal service not otherwise exercised on an areawide or non-areawide basis, such as road construction and maintenance, street lighting, fire protection, and water and sewer service. Commissioners, appointed by the mayor and confirmed by the assembly, oversee the affairs of service areas. The administrative management is the responsibility of the Borough's divisions of rural services and emergency management. The assembly approves service area budgets and tax levies. There are currently over 100 service areas within the Borough.

## **Cities**

The Borough includes two cities within its boundaries, Fairbanks and North Pole. The cities provide complementary municipal functions within their boundaries. In Fairbanks, these services include police and fire protection, emergency medical services, parking, roads, and solid waste collection services. In North Pole, they include police and fire protection, emergency medical services, roads, and water and sewer services.

## **Relation to the School District**

One of the Borough's mandatory duties is to provide for elementary and secondary education. The Borough shares responsibility for the education system with the elected school board. The Borough provides local funding and facilities, while the school board provides management and operations. The Borough and school district each have their own administrative and finance departments. The Borough's public works department manages the construction and major maintenance of school facilities.

By April 1 of each year, the school district adopts its annual fiscal year budget and submits it to the assembly. One revenue source in the school district budget is a lump-sum Borough appropriation. The assembly is required to determine the minimum local funding within 30 days of receipt of the school district budget. The assembly holds hearings on its own budget and determines its appropriation for education, as part of the Borough's annual operating budget. Upon adoption of the budget, the assembly establishes the local property tax mill rate to provide the funds required for Borough operation and the local contribution to education.

The Borough assembly also approves the borrowing of funds and the issuance of bonds for school projects. Debt incurred for the construction of school facilities is a Borough responsibility. All land and school buildings are owned and accounted for by the Borough and are provided to the school district without charge. Schools located on military bases are operated by the school district through agreements with the state and U.S. Department of Education. Ownership of the on-base schools is being individually transferred to the Borough as new on-base schools are constructed or existing schools renovated to Borough standards with state and federal construction funds.

# FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT

## Organization

The school district operates a public school system under a seven-member elected school board pursuant to Title 14 Alaska Statutes (“AS”). The board also includes, as appointed advisory voting members, a base representative from Eielson Air Force Base, a post representative from Fort Wainwright, and a student representative. The superintendent of schools carries out goals and objectives set by the school board. Other principal officials of the school district include assistant superintendents of elementary curriculum and instruction, secondary curriculum and instruction, chief financial officer, and departmental directors.

## Responsibilities

The school board oversees the curricular and administrative functions of all schools currently operating within the district, including schools located on Fort Wainwright and Eielson Air Force Base. All schools are operated with a combination of local, state, and federal funds.

## Enrollment and Facilities

The following inset shows public school enrollments for the last five years as provided by the school district. Enrollments include students at both in-town schools and on-base schools. School enrollments have dropped for the past five years, particularly at the elementary level.

	1999	2000	2001	2002	2003
Elementary	8,664	8,491	8,291	8,113	7,741
Secondary	<u>7,140</u>	<u>7,062</u>	<u>6,983</u>	<u>7,029</u>	<u>6,852</u>
Total	15,804	15,553	15,274	15,142	14,593

The school district operates sixteen elementary and eight secondary in-town schools, three elementary schools and one secondary on-base school, and one charter school, as well as five alternative programs, and correspondence study at both the elementary and secondary levels.

The school district employs 1,866 people: 970 teachers, 43 principals, 73 exempt staff, and 780 support staff.

## THE CONSTRUCTION PROGRAM

Proceeds of the Bonds will be used for construction, renovation, and upgrade of schools in the Borough, as summarized in Table 1 and described below.

Voters approved the projects in 2002. Design and planning for the two largest projects, the demolition and reconstruction of Denali and Nordale Elementary schools, is 95 percent complete; the bid package is currently being prepared and will be sent out for award this spring. Construction is expected to start in the summer of 2004 after the end of classes.

District-wide projects, including technology, interior and exterior facilities upgrades, and maintenance projects, are ongoing. Some projects have been completed already, including the upgrading of most of the athletic facilities at Lathrop High School. Most projects are slated for construction during 2004 and 2005, with an expected completion date of 2006 for the final projects.

Proceeds of the bonds will be used to continue construction on the projects; most improvements are expected to be completed in 2005 with remaining district-wide projects scheduled for completion in 2006.

**Table 1 ■ Fairbanks North Star Borough  
School Construction Program**

Project	Estimated Borough Cost	Project Status
Projects approved in 2002		
Denali Elementary School construction	\$15,100,000	design completed
Nordale Elementary School construction	15,100,000	design completed
District-wide technology, maintenance, and facilities projects	<u>12,064,000</u>	ongoing
2002 projects total	\$42,264,000	

Source: Prepared by Bartle Wells Associates from information supplied by the Borough

- **Denali and Nordale Elementary Schools:** These projects comprise the design, demolition, construction and equipping of new elementary schools on the sites of the existing schools.
- **District-wide Improvements:** Exterior improvement and site upgrades at Barnette Elementary School, district-wide technology upgrades including fiber optic cabling, wireless links, and associated hardware upgrades, additional improvements to the Lathrop High School facilities and district-wide maintenance projects including fire sprinkler and electrical system upgrades, roof, siding, and floor improvements, and site improvements.

The school construction projects described above have received the state Department of Education and Early Development approvals required to qualify for state debt service reimbursement as described further in "State Aid to Education".

## **STATE AID TO EDUCATION**

The State of Alaska has a central role in financing education. The state provides assistance for school construction through both direct grants and as partial reimbursement of debt service on local bonds for state-approved school projects. The state also provides aid to local school districts for operating expenses through the public school foundation program.

### **School Debt Service Reimbursement**

The state contributes to local school construction and related debt retirement through a program created by the state legislature in 1970, AS 14.11.100 (as amended), "State Aid for Costs of School Construction Debt." The program reimburses municipalities that are school districts for a portion of the costs of school construction. State reimbursement applies to debt service on locally issued school bonds.

Funds to provide state aid to school construction must be appropriated to the school construction account annually by the Alaska legislature. Appropriations may not always be sufficient to fully fund the level of payments authorized by statute. If amounts in the account are insufficient to fully fund the program in any year, the available funds are distributed pro rata among the eligible local governments. Actual state reimbursements have varied from year to year. Reimbursements have been 100 percent of entitlement in each fiscal year since 1991/92.

Under the state's program of debt service reimbursement for school construction, the level of reimbursement has varied since the program began. Currently school construction projects approved by the Department of Education and Early Development ("DEED") are eligible for 70 percent debt service reimbursement. Other projects are eligible for 60 percent debt service reimbursement.

Costs of school construction eligible for reimbursement include the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping, or furnishing public elementary, secondary, and other school buildings. Costs include the costs of financing and carrying out the project, such as studies, surveys, plans, and specifications; architectural, engineering, or other services; site acquisition, preparation, and development; financing costs including bond interest; insurance; and fees and expenses of legal advisors, trustees, financial advisors, depositories, and paying agents. Project costs may also include an allocation of administrative and operating expenses of the recipient.

To obtain reimbursement, the Borough must provide the state Department of Education and Early Development with an estimate of school-related debt service expenditures for the upcoming fiscal year by October 15 of each year. The school district must file an annual claim with the state Commissioner of Education and Early Development. Claims must be supported by a certified audit report of the school district, including applicable Borough school construction accounts, prepared in accordance with state regulations, or by a statement from the paying agent of amounts paid by the Borough in the current fiscal year. As each debt service payment is due, the Borough transmits funds to the paying agent. The paying agent notifies the state, then the state reimburses substantially

all of the eligible amount. The state makes final payments August 1 following each fiscal year based on the availability of funds.

## **Borough Reimbursement Entitlement**

Table 2 summarizes the Borough's outstanding school bonds and their reimbursement eligibility.

**Table 2 ■ Fairbanks North Star Borough  
Outstanding School Bonds as of March 17, 2004**

Series	Purpose	Outstanding Principal	Final Payment	Reimbursement Eligibility
1993S Refunding <sup>(1)</sup>	Schools	\$15,080,000	03/01/2008	80-90%
1996U <sup>(2)</sup>	Schools	12,500,000	11/01/2016	70%
1997A <sup>(3)</sup>	Schools, library	28,950,000	11/01/2017	70%
1999B <sup>(2)</sup>	Schools	22,875,000	04/01/2019	70%
2000C	Schools	8,335,000	12/01/2020	70%
2001D	Schools	8,180,000	02/01/2021	70%
2002E	Schools	13,620,000	08/01/2022	70%
2003F	Schools	13,500,000	10/01/2022	70%
2004G	Schools	<u>14,164,000</u>	10/01/2023	70%
Total		\$137,204,000		

1 - The 1993S refunding bonds refunded 3 series, reimbursable at 80 and 90 percent.

2 - Series 1996U and 1999B include about \$9.5 million of local match for state grants, ineligible for reimbursement. Balance reimbursable at 70 percent.

3 - 1997A included \$1,250,000 library bonds, ineligible for reimbursement.

Source: Fairbanks North Star Borough Budget

The Borough has seven issues of outstanding school bonds eligible for state reimbursement, including the Bonds. The Borough's outstanding bonds are eligible for reimbursement of between 70 percent and 90 percent:

- Part of the Series 1993S refunding bonds is reimbursable at 90 percent, and the balance is reimbursable at 80 percent. The 1993S refunding bonds refunded three series of prior bonds. One series was reimbursable at 90 percent; the other two series were reimbursable at 80 percent. Each year's debt service is allocated to the prior issues and retains the reimbursement eligibility of the prior issues. About 9 percent is reimbursable at 90 percent and 91 percent at 80 percent.

- A portion of the Series 1996U, Series 1997A, and Series 1999B are eligible for reimbursement at 70 percent. Series 1996U and 1999B included about \$9.5 million of local funds to match state grants on a 70/30 basis. Debt service on the local match is not reimbursable. Series 1997A included \$1,250,000 for library purposes, which is payable solely by the Borough. The entire Series 2000C, Series 2001D, 2002 E, 2003F, and the Bonds are eligible for reimbursement at 70 percent.

The state legislature has also authorized a special 100 percent reimbursement for \$4.5 million to be spent on the Eielson Air Force Base Elementary School. These funds are needed to bring the school into compliance with local and state regulations before the U.S. government cedes authority over the school to the Borough and the Borough incorporates it into the local school system.

Table 3 summarizes the total annual debt service on outstanding bonds, estimated debt service on the Bonds, reimbursement entitlement, and the net local expense. Table 3 is presented on a cash flow basis, to project the net local cost to the Borough's taxpayers each year. Overall, the net local cost is about one-third of total annual debt service.

**Table 3 ■ Fairbanks North Star Borough  
Debt Service Reimbursement Entitlement**

Fiscal Year	Debt Service			Reimbursement Entitlement	Net Borough Expense	Percent of Current Year
	Prior Issues	2004G	Total			
2003/04	\$14,798,362	\$0	\$14,798,362	\$10,163,192	\$4,635,171	31.3%
2004/05	15,082,006	1,035,021	16,117,027	11,272,877	4,844,150	30.1%
2005/06	15,152,648	1,026,476	16,179,124	11,331,702	4,847,422	30.0%
2006/07	12,951,498	1,019,445	13,970,943	9,495,232	4,475,711	32.0%
2007/08	12,935,248	1,012,101	13,947,349	9,489,890	4,457,459	32.0%
2008/09	9,731,366	1,004,445	10,735,811	6,917,837	3,817,974	35.6%
2009/10	9,722,210	1,001,033	10,723,243	6,906,321	3,816,921	35.6%
2010/11	9,720,973	996,776	10,717,749	6,900,620	3,817,129	35.6%
2011/12	9,748,298	996,951	10,745,249	6,910,041	3,835,208	35.7%
2012/13	9,753,180	996,476	10,749,656	6,913,841	3,835,815	35.7%
2013/14	9,820,254	995,351	10,815,605	6,951,414	3,864,191	35.7%
2014/15	9,819,163	997,981	10,817,144	6,955,728	3,861,415	35.7%
2015/16	9,806,236	998,911	10,805,148	6,934,990	3,870,158	35.8%
2016/17	9,905,966	1,003,166	10,909,133	7,002,504	3,906,628	35.8%
2017/18	8,512,939	1,005,409	9,518,348	6,538,503	2,979,846	31.3%
2018/19	5,673,751	1,010,274	6,684,025	4,625,456	2,058,569	30.8%
2019/20	3,606,839	1,012,776	4,619,615	3,233,731	1,385,885	30.0%
2020/21	3,635,748	1,018,376	4,654,124	3,257,887	1,396,237	30.0%
2021/22	2,201,575	1,016,904	3,218,479	2,252,936	965,544	30.0%
2022/23	2,211,571	1,022,873	3,234,444	2,264,111	970,333	30.0%
2023/24	-	1,026,356	1,026,356	718,449	307,907	30.0%
Totals	\$184,789,830	\$20,197,103	\$204,986,933	\$137,037,260	\$67,949,672	

Source: Prepared by Bartle Wells Associates

## **School Operating Aid**

The state provides aid to local school districts for the payment of operating expenses under the public school foundation program. The purpose of the foundation program is to provide a uniform system of public school aid throughout the state. Under the program, the state makes appropriations to districts and for centralized correspondence study programs. State funding also includes contract fees for schools located at Fort Wainwright and Eielson Air Force Base.

Foundation funding for Alaska's public schools represents the largest single appropriation by the legislature each year. The state's system of providing school operating aid is based on a formula that is intended to equalize funding to school districts around the state. The district also receives state support for educating wards of the state and a fee for administering schools located on military bases.

## **BOROUGH FINANCES**

The Borough's accounting policies conform to generally accepted accounting principles as applicable to governments. The annual financial report also conforms to applicable provisions of the Alaska Statutes and the Borough's Code of Ordinances. The Borough has received the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report since 1991, except for 1993. The school district issues a separate financial report, which is incorporated into the Borough's financial statement. Financial reports of both entities are audited annually by an independent certified public accountant.

### **Funds and Accounts**

The Borough's accounts are organized on the basis of funds and account groups, each representing a separate accounting entity. The Borough maintains three broad fund categories—governmental, proprietary, and fiduciary. The Borough maintains its accounting records on a modified accrual basis for the government funds and on the accrual basis for its proprietary funds.

Governmental funds are those through which most of the Borough's governmental functions are financed, and include the following fund types:

- **General Fund:** Accounts for all financial resources except those required to be accounted for in another fund. Revenue is received from such sources as general property taxes, intergovernmental revenues, and charges for services. Expenditures are authorized in the annual budget and include administration, recreation, public facilities, library, planning and zoning, and other areawide community activities.
- **Special Revenue Funds:** Account for the proceeds of specific revenue sources provided by local taxation and state revenues that are legally restricted to expenditures for specific purposes. Certain annual operating activities are conducted with this fund type, usually on a geographical basis. These include solid waste collection, emergency medical services, economic development, emergency communication services, and various service area functions. Additional special revenue funds are used for multi-year, non-capital construction projects funded by grants from the state, federal pass-through grants, federal grants, and certain local funds and includes revenue for trusts.
- **Debt Service Fund:** Accounts for the payment of interest, principal, and related costs on general obligation debt. Debt service requirements are funded by the general and non-areawide funds and by state reimbursements for school construction received through the general fund.
- **Capital Projects Funds:** Account for financial resources to be used for the acquisition, construction, renovation, or major repair or maintenance of capital facilities and assets.

The Borough's proprietary funds include:

- **Enterprise Funds:** Account for the Borough's ongoing operations that are similar to those conducted in the private sector. Enterprise funds include transportation, land management program, solid waste disposal, and the John A. Carlson Community Activity Center.
- **Internal Service Fund:** Accounts for the financing of goods or services provided by one department to other departments of the Borough on a cost-reimbursement basis. The Borough's vehicle and equipment replacements are funded and purchased through the Vehicle and Equipment Fleet Fund.

The Borough's fiduciary fund includes:

- **Agency Fund:** Accounts for assets held for other governmental units. These are custodial funds.

## General Fund Financial Information

Table 4 summarizes the general fund revenues, expenditures, and changes in fund balance for the past five fiscal years. The Borough's largest combined source of general fund revenue is taxes, totaling \$58.5 million in 2002/03 and accounting for 79 percent of general fund revenue. Tax revenue includes hotel/motel taxes collected outside the City of Fairbanks. The balance of tax revenue is from property taxes.

**Table 4 ■ Fairbanks North Star Borough  
General Fund Revenues, Expenditures, and Change in Fund Balance**

	1998/99	1999/00	2000/01	2001/02	2002/03
<b>Revenues</b>					
Taxes	\$48,749,572	\$54,794,228	\$54,174,196	\$57,261,548	\$58,508,210
Intergovernmental revenues	12,881,043	12,754,730	10,039,324	12,273,453	11,973,317
Charges for services	1,244,782	1,292,014	1,268,606	1,270,557	1,216,277
Charges to school district <sup>(1)</sup>	905,614	1,023,735	855,683	796,814	-
Other revenues	<u>4,099,140</u>	<u>5,782,390</u>	<u>7,019,140</u>	<u>4,963,745</u>	<u>2,159,771</u>
Total revenues	\$67,880,150	\$75,647,097	\$73,356,949	\$76,566,117	\$73,857,575
<b>Expenditures</b>					
General government	9,184,173	9,879,018	10,006,431	9,981,127	8,760,047
Community planning	1,028,568	1,022,923	1,065,850	1,117,465	1,216,560
Public works	3,328,534	3,423,968	3,569,783	3,513,069	2,539,377
Direct services	1,160,654	1,305,218	1,217,117	1,265,690	1,393,661
Parks and recreation	3,422,394	3,701,869	3,831,937	4,051,609	4,186,349
Library	2,446,650	2,695,689	2,804,724	2,943,106	3,136,426
Emergency Services	-	-	84,470	223,075	213,548
Capital outlay	<u>397,411</u>	<u>527,773</u>	<u>494,297</u>	<u>546,579</u>	<u>343,370</u>
Total expenditures	\$20,968,385	\$22,556,458	\$23,074,609	\$23,641,721	\$21,789,339
Excess of revenues over expenditures	46,911,765	53,090,639	50,282,340	52,924,396	52,068,236
<b>Operating Transfers In (Out)</b>					
Other funds <sup>(2)</sup>	(15,004,121)	(20,214,975)	(17,023,030)	(18,898,952)	(19,748,668)
School district	<u>(30,690,780)</u>	<u>(30,690,780)</u>	<u>(32,045,700)</u>	<u>(32,555,700)</u>	<u>(33,545,600)</u>
Total other financing uses	(\$45,694,901)	(\$50,905,755)	(\$49,068,730)	(\$51,454,652)	(\$53,294,268)
Excess (deficiency) of revenues over expenditures & other uses	1,216,864	2,184,884	1,213,611	1,469,744	(1,226,032)
Fund balance, July 1	11,689,604	12,906,467	15,091,351	16,242,766	19,015,238
Adjustments <sup>(3)</sup>	-	-	<u>(62,196)</u>	<u>1,302,728</u>	-
Fund balance, June 30	\$12,906,467	\$15,091,351	\$16,242,766	\$19,015,238	\$17,789,206

1- Not shown beginning in FY 2002/03 due to accounting changes from GASB Statement #34.

2- Includes transfer to debt service fund.

3- FY 2001/02 beginning balance restated (resulting in an increase of \$1,152,727) due to GASB Interpretation No. 6.

Totals may not add due to rounding.

Source: Financial Statements of the Borough

In 2002/03, intergovernmental revenues amounted to \$11.97 million. This includes approximately \$9 million in state reimbursement of school debt service. The state's reimbursement for school construction is discussed elsewhere in this official statement, under the heading "State Aid to Education." Other state assistance amounted to about \$3 million, or 4 percent of general fund revenue.

In 2002/03, total expenditures were \$21.8 million, a reduction of about 8 percent from 2001/02. The general fund's contribution to education was \$33.5 million, shown as an operating transfer to the school district. General fund contribution to debt service was \$13.1 million, also shown as a transfer to other funds.

As of the date of this official statement, audited 2002/03 financial information is now available and may be obtained from the Borough upon request. Data for 2002/03 presented in tables 4 and 6 is from preliminary un-audited information.

Table 5 summarizes the 2003/04 general fund budget. The Borough's general fund budget totals \$81.8 million. Taxes, the largest revenue source, account for about 76 percent of budgeted general fund revenues, and consist primarily of areawide property taxes. Various categories of state aid, of which school construction reimbursement is the largest, make up another 14 percent of general fund revenues.

**Table 5 ■ Fairbanks North Star Borough  
Approved General Fund Budget**

	2003/04
<b>Revenue Sources</b>	
Taxes	\$61,929,680
State and federal revenues	12,299,870
Charges for services	1,340,600
Intragovernmental charges	3,879,050
Other local revenue	976,990
Operating transfer to General Fund from HMTF	277,150
Contribution from fund balance	<u>1,061,000</u>
Total local revenue	\$81,764,340
<b>Expenditures and Other Financing Uses</b>	
Mayor and assembly	2,363,460
Law	666,830
Assessing	1,903,070
Community planning	1,425,300
Computer services	2,099,660
Direct services	1,678,830
Emergency operations	280,030
Facilities Maintenance*	2,980,550
Financial services	1,997,180
General services	1,241,100
Human resources	2,114,580
Library services	3,615,310
Parks and recreation	4,546,220
Public works	780,260
Nondepartmental	306,430
Intergovernmental charges	<u>34,150</u>
Total operating expenditures	\$28,032,960
<b>Contributions to Other Funds</b>	
Capital projects	933,550
Debt service	14,648,130
Education	34,545,700
Other operating transfers	<u>3,604,000</u>
Total contributions	53,731,380
<b>Total expenditures and contributions</b>	<b>\$81,764,340</b>

\*Facilities maintenance was changed from a division of public works to a department for FY 2003/04.  
Source: Fairbanks North Star Borough 2002/03 and 2003/04 Approved Budgets

The Borough has budgeted operating expenditures of \$28 million. The balance of general fund expenditures consists of contributions to other funds. The contribution to education, at \$34.5 million, is 42 percent of the total general fund budget.

The 2003/04 budget increased 4.4 percent from the prior year. The budget anticipates an increase in state and federal revenues received by the general fund, after a decrease in the previous fiscal year due to lower debt service and debt service reimbursement and an overall reduction in state aid to local governments.

After adoption of the FY 2003/04 budget by the Borough Assembly, the Alaska Governor eliminated the state's capital matching grant program, safe communities program, and revenue sharing programs reducing the state and federal revenues projected in the budget by \$1.18 million. A one-time pass-through of \$762,000 in federal fiscal relief funding offset the majority of these reductions. The programs remain in the State statutes however future funding is uncertain at this time.

Table 6 shows the general fund balance sheet as of June 30, 1999 through 2003.

**Table 6 ■ Fairbanks North Star Borough  
General Fund Balance Sheet, June 30**

	1999	2000	2001	2002	Unaudited 2003
<b>Assets</b>					
Equity in central treasury cash	\$18,749,573	\$19,042,804	\$20,454,722	\$22,251,165	\$21,543,345
Taxes receivable	434,618	553,548	588,189	602,306	2,197,273
Accounts receivable	51,545	47,880	43,319	72,528	104,655
Accrued interest receivable	299,753	869,747	820,217	282,047	218,271
Interfund receivables	50,763	342,028	290,733	386,761	655,478
Due from governmental agencies	382,085	392,236	510,023	558,353	392,042
Other assets	<u>1,156,247</u>	<u>1,149,043</u>	<u>1,144,465</u>	<u>1,249,876</u>	<u>1,228,859</u>
Total assets	\$21,124,584	\$22,397,286	\$23,851,719	\$25,403,036	\$26,339,923
<b>Liabilities and Fund Balance</b>					
<b>Liabilities</b>					
Accounts payable	446,065	596,842	708,656	651,249	584,593
Wages and payroll taxes	715,002	516,197	460,013	500,490	852,585
Accrued annual leave	1,039,649	1,054,246	1,089,708	1,152,727	131,827
Accrued self-insurance losses	681,121	752,379	746,036	750,724	622,686
Due to school district	-	-	-	-	7,194
Deposits from others	95,453	104,078	151,331	128,831	177,388
Estimated claims, judgements and settlements payable	-	99,505	-	-	-
Deferred revenues	-	-	-	-	1,599,735
Advance tax payments	<u>5,240,827</u>	<u>4,182,689</u>	<u>4,453,209</u>	<u>4,356,503</u>	<u>4,574,708</u>
Total liabilities	\$8,218,117	\$7,305,936	\$7,608,953	\$7,540,524	\$8,550,716
<b>Fund balance:</b>					
Reserved for encumbrances	252,059	370,787	286,112	231,960	316,869
Unreserved, designated for:					
Annual leave	-	-	-	-	1,199,830
Self-insurance losses	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Net unrealized gains	-	-	306,315	146,009	-
Subsequent year's expenditures	50,000	500,000	500,000	880,740	1,060,990
Education	-	-	-	1,000,000	-
Unreserved, undesignated	11,104,409	12,720,564	13,650,339	14,103,801	13,711,517
Adjustment due to restatement <sup>(1)</sup>	-	-	-	<u>1,152,728</u>	-
Total fund balance	\$12,906,468	\$15,091,351	\$16,242,766	\$19,015,238	\$17,789,206
Total liabilities and fund balance	\$21,124,584	\$22,397,286	\$23,851,719	\$25,403,036	\$26,339,923

Totals may not add due to rounding.

1- Fund balance restated due to GASB Interpretation No. 6.

Source: Financial Statements of the Borough.

## Assessed Valuation and Property Taxes

Under state law, the Borough is required to assess property at 100 percent of its true market value as of January 1 of each year, with minor exceptions. The Borough assessor assesses taxable real property within the Borough, except for oil and gas pipeline-related property. Oil and gas pipeline-related property is assessed by the state, but is subject to the property tax levied by the Borough.

Table 7 shows the Borough's certified real property assessed valuation from 1998 through 2003. The Borough's 2003 assessed value is about \$4.9 billion, which represents an increase of 6.3 percent over 2002. Assessed valuations have increased at an average rate of 5.2 percent per year over the past five years.

**Table 7 ■ Fairbanks North Star Borough  
Assessed Valuation History (000)**

Tax Year	Within Cities	Outside Cities	Pipeline-Related*	Borough Total	Percentage Increase
1998	\$1,348,944	\$2,127,366	\$286,561	\$3,762,871	6.3%
1999	1,431,499	2,287,951	303,578	4,023,028	6.9%
2000	1,501,384	2,424,844	258,225	4,184,454	4.0%
2001	1,532,258	2,530,910	277,582	4,340,750	3.7%
2002	1,617,351	2,687,795	263,366	4,568,512	5.2%
2003	1,715,449	2,868,516	270,806	4,854,771	6.3%

\*Assessed by state.

Source: Fairbanks North Star Borough Budget

Alaska law provides for both optional and mandatory property tax exemptions. Senior citizens, disabled veterans, and widows and widowers receive mandatory exemptions of up to \$150,000 of assessed valuation. An exemption for 20 percent of the assessed valuation of residential property, up to a maximum of \$10,000 per residence, is optional under state law. The Borough has adopted this exemption. In its 2002 legislative session, the Alaska Legislature approved additional optional exemptions of \$10,000 per residence for certain types of lands and landowners starting in 2004. These exemptions have been adopted beginning in the current tax year, and apply to primary residential properties owned by volunteer EMS medics and firefighters. The financial impact of this exemption is expected to be minimal. Other local exemptions include personal property, economic development, and senior citizens housing. For 2003, the estimated optional residential exemptions totaled \$139 million; mandatory exemptions totaled \$268 million.

The Borough's 2003 estimated net taxable value is about \$4.4 billion as shown in Table 8.

Property owners are notified during each March of their assessments as of January 1. The Borough's board of equalization annually hears assessment appeals during the month of April. Tax rates are established by the Assembly before June 15, following the adoption of the Borough budget. Current taxes levied on real property are due and payable on July 1 of each year, but may be paid in two equal installments on September 1 and November 1 without incurring penalties or interest.

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**Table 8 ■ Fairbanks North Star Borough  
Estimated Assessed Valuation, 2003**

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Borough assessor's value	\$4,854,771,052
Less:	
Mandatory exemptions	(267,736,240)
Optional residential exemptions	<u>(139,343,298)</u>
Borough net taxable value	<u>\$4,447,691,514</u>

Source: Prepared by Bartle Wells Associates from information supplied by the Borough

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Delinquent taxes carry a penalty of 10 percent plus interest at 8 percent per year. The foreclosure process for delinquent taxes begins approximately three months after the second half due date in each taxing year. Under Alaska law, properties with delinquent taxes are awarded to the Borough when a foreclosure judgment is filed. Delinquent property owners have one year from the filing date to redeem their property. Unredeemed property may be sold to recover the collection costs, taxes, interest and penalty due. Title is transferred to the Borough by tax deed prior to the annual foreclosure sale.

### **Largest Taxpayers**

A pumping station and about 90 miles of the Trans Alaska oil pipeline are located within the Borough. Together they account for \$271 million of the Borough's estimated 2003 assessed valuation, making the Alyeska Pipeline Service Company the Borough's largest taxpayer. The pipeline's assessed valuation is declining, based on the expected life of the pipeline and the oil fields. Pipeline related value increased in 1999 due to personal property brought into the Borough by the company, which was subsequently removed. Pipeline related value increased again in 2001 due to the state Assessment Board's decision to change the depreciation schedule on the pipeline as negotiated with Alyeska Pipeline Service Company, resulting in an increase in the assessed value. The pipeline's assessed valuation is expected to continue to decline gradually. The pipeline's 2003 estimated assessed valuation within the Borough is about 5.6 percent of the Borough's total assessed valuation of \$4.9 billion.

Table 9 shows the Borough's ten largest commercial/industrial taxpayers for 2003. Together they account for 17.7 percent of total assessed valuation a decrease from 18.1 percent in 2002.

**Table 9 ■ Fairbanks North Star Borough  
Largest Commercial/Industrial Taxpayers, 2003**

Taxpayer	Type of Property	Assessed Valuation (000)	Percent of Borough Total (1)
Alyeska and related activities	oil transportation	\$270,806	5.58%
Fort Knox	mining	231,012	4.76%
Williams Alaska Petroleum, Inc.	oil refining	170,313	3.51%
HEBL Housing (Eielson)	military housing	43,025	0.89%
PTI Communications of Alaska Inc. (2)	telephone	39,567	0.82%
Alaska Hotel Properties, Inc. (Princess)	hotel	26,309	0.54%
North Star Alaska Housing	military housing	24,394	0.50%
Fred Meyer of Alaska	shopping center	21,177	0.44%
Bentley Mall/Barsa Association	shopping center	17,983	0.37%
Home Depot	retail	15,052	0.31%
		<u>\$859,638</u>	<u>17.71%</u>
1- Total assessor's value, 2003		\$4,854,771	
2- Alaska Communication Systems			
Source: Fairbanks North Star Borough			

## Tax Rates

Table 10 shows the tax rates levied by the Borough and its two cities for the last five years.

**Table 10 ■ Fairbanks North Star Borough  
Ad Valorem Tax Rate History  
Mills per \$1,000 Assessed Value<sup>(1)</sup>**

Tax Year	Borough	Non-Areawide <sup>(2)</sup>	Solid Waste Collection <sup>(3)</sup>	City of Fairbanks	City of North Pole
1999	14.480	0.516	1.188	6.000	2.300
2000	13.662	0.522	1.159	6.442	2.400
2001	13.860	0.521	1.162	6.426	2.400
2002	13.693	0.525	1.187	6.511	3.000
2003	13.693	0.523	1.187	6.516	3.000

1 - Rates do not include service area levies.

2 - Outside the cities of Fairbanks and North Pole

3 - Includes area outside the City of Fairbanks

Source: Fairbanks North Star Borough 2003/04 Budget

The Borough's 2003 areawide tax rate is 13.693 mills per \$1,000 of assessed valuation. An additional 0.523 mills is levied on property outside the cities for ambulance service, economic development, and debt service on solid waste collection bonds. An additional 1.187 mills is levied outside the City of Fairbanks for solid waste collection. Properties outside the cities may also be included in service areas and subject to service area taxes. The city tax rates are 6.516 mills in Fairbanks and 3.0 mills in North Pole.

Table 11 shows total tax rates in the cities and outside, exclusive of service area taxes. Areawide taxes levied for debt service on the Borough's school and library bonds are shown separately. They are included in the Borough's mill rate of 13.693.

**Table 11 ■ Fairbanks North Star Borough  
Total Tax Rates, 2003/04  
Mills per \$1,000 of Assessed Value**

	City of Fairbanks	City of North Pole	Outside Cities <sup>(1)</sup>
Borough areawide, excluding debt service	12.701	12.701	12.701
Borough debt service			
School bonds	0.970	0.970	0.970
Library bonds	<u>0.022</u>	<u>0.022</u>	<u>0.022</u>
Total debt service	0.992	0.992	0.992
Total Borough areawide	13.693	13.693	13.693
City of Fairbanks	6.516		
City of North Pole		3.000	
Solid waste collection Non-areawide	(2)	1.187	1.187 0.523
Total <sup>(1)</sup>	20.209	17.880	15.403

1- Does not include service area tax rates

2- Fairbanks has its own solid waste collection service

Source: Fairbanks North Star Borough Budget

## Tax Levies and Delinquencies

Table 12 shows property tax levies and current and delinquent collections for the Borough from 1997/98 through 2002/03. The Borough's total tax levy includes taxes levied on property which is exempt from property taxes. The net tax levy excludes residential and state-mandated property tax exemptions for senior citizens, disabled veterans, and widows and widowers. In 2002/03, the Borough's current tax collections were 98 percent of the net current year levy on taxable property. Total collections, including delinquent taxes, totaled \$56.9 million, or 99.2 percent of the net current year levy. The net tax levy for FY 2004 is \$60.7 million. As protection against potential tax delinquencies, the Borough includes a delinquency allowance of two percent of the taxes on taxable property when estimating its property tax revenues for budget purposes.

The Borough collects property taxes for the Borough and for the cities of Fairbanks and North Pole. Taxes collected on behalf of the cities are transmitted as collected to the cities. These are not included in Table 12, nor are the Borough taxes collected on a non-areawide, district, or service area basis.

**Table 12 ■ Fairbanks North Star Borough  
Areawide Property Tax Levies and Collections**

	1998/99	1999/00	2000/01	2001/02	2002/03
Net tax levy <sup>(1)</sup>	\$47,143,017	\$53,617,787	\$52,599,980	\$55,267,748	\$57,372,710
Current tax collections	47,030,281	52,965,407	51,710,487	54,516,342	56,225,250
Delinquent collections	<u>598,132</u>	<u>577,253</u>	<u>693,678</u>	<u>792,432</u>	<u>662,400</u>
Total collections <sup>(2)</sup>	\$47,628,413	\$53,542,660	\$52,404,165	\$55,308,774	\$56,887,650
Current year, percent of net levy collected	99.76%	98.78%	98.31%	98.64%	98.00%
	0.24%	1.22%	1.69%	1.36%	2.00%

1- Areawide taxes levied by Borough only. Excludes state-mandated and residential property tax exemptions.

2- Excludes penalty, interest, legal fees, and collections for other governmental units.

Totals may not add due to rounding.

Source: Fairbanks North Star Borough Comprehensive Annual Financial Report

## Bonded Indebtedness

Under Alaska law, the Borough may issue general obligation bonds, revenue bonds, and assessment bonds. To date, it has issued only general obligation bonds. General obligation bonds may be issued without limitation upon approval by a majority of Borough voters. There are no constitutional or statutory debt limitations under Alaska law.

Table 13 shows the Borough's outstanding bonded debt as of March 17, 2004. All of the Borough's outstanding bonds have been issued for school construction, except 1994 Series T and a portion of the 1997 Series A Bonds. The 1994 Series T Bonds were issued in the amount of \$2 million for solid waste transfer stations. The 1997 Series A Bonds included \$1.25 million to finance an addition to and renovation of the Noel Wien Library.

As of March 17, 2004 total gross direct debt, including the Bonds, is \$137.4 million. Table 13 also shows direct and total Borough debt in relation to the Borough's taxable assessed valuation and population. As Table 13 shows, \$92 million of the Borough's direct debt (67 percent) is eligible for state reimbursement.

**Table 13 ■ Fairbanks North Star Borough  
Direct and Underlying Bonded Debt**

	Percent Applicable	03/17/2004
<b>Direct Debt</b>		
Outstanding school and library bonds	100%	\$123,040,000
Solid waste transfer bonds	100%	245,000
2004G bonds	100%	<u>14,164,000</u>
Total gross direct debt		137,449,000
Less: School bonds eligible for state reimbursement		<u>-92,000,017</u>
Total net direct bonded debt		45,448,983
<b>Direct and Underlying Debt</b>		
Underlying debt: City of Fairbanks	100%	12,810,000
Net solid waste enterprise revolving fund loan	100%	4,266,000
Direct debt		<u>137,449,000</u>
Total gross direct and underlying debt		154,525,000
Less: School bonds eligible for state reimbursement		<u>-92,000,017</u>
Total net direct and underlying bonded debt		62,524,983
		Percent of Taxable Assessed Value 4,448,000,000
<b>Ratio of Direct Debt to Assessed Value</b>		
Gross	\$137,449,000	3.09%
Net	45,448,983	1.02%

Source: Prepared by Bartle Wells Associates from information supplied by the Borough

Table 3, in the section entitled "State Aid to Education," shows total debt service on a fiscal year basis for all outstanding Borough bonds, including the Bonds. The Borough has paid all bond interest and principal promptly when due. Tables 3 and 13 (p.30) also display the effect of state reimbursement of the Borough's debt service payments. With full funding of the debt service reimbursement program, the Borough's net local cost will be about one-third of its total annual debt service through 2007/08.

### **Borough Tax Limitation**

At the October 1987 regular election, Borough voters approved a tax cap proposition, which voters must renew every two years to avoid legislative action. In October 1996, Borough voters approved a change in the property tax cap to require inclusion of other tax revenues within the tax cap computation and to require publication of tax cap computations by May 31 of each year. This measure limits the amount of taxes which the Borough can levy to the prior year's tax levy with certain permitted adjustments. Voters last reapproved these measures in October 2002. The prior year's total taxes levied can be adjusted to:

- pay debt service on bonds;
- adjust for increases due to inflation as measured by the Consumer Price Index;
- account for new construction and property improvements;
- pay for new services approved by the voters;
- pay for legal judgments against the Borough; and
- pay for expenses in emergencies.

The 2003/04 budget is \$700,000 below the current limit. Under the current tax cap, one year's actual tax levy is the beginning basis for the following year's limit. Levying less than the full amount permitted reduces future limits.

### **Budgetary Process**

The budget process includes several steps, starting with the submission of initial budget recommendations from Borough departments to the mayor, who reviews the submissions and makes changes. According to Borough ordinance, the mayor's recommended budget must be presented to the assembly on or before the first Thursday following April 1 of each year. At least one public hearing must be held. The assembly adopts the budget and appropriates funds by passing an appropriating ordinance by May 31. Every year since 1989/90, the Borough has been awarded the GFOA's Distinguished Budget Award Presentation for its annual budget document. In order to receive this award from GFOA, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

## **Fiscal Policies**

The Borough manages its finances in compliance with a variety of fiscal policies, including the following:

### ***Operating Budget Policies***

- All general government current operating expenditures are to be paid from current and excess revenues. The Borough will avoid budgetary and accounting procedures which balance the current budget at the expense of meeting future years' obligations. The use of one-time revenues for ongoing operations will not be encouraged.
- All budgetary procedures will conform to existing state law and the Borough Code.
- The budget development process will examine and effect changes in program delivery responsibilities or management to improve productivity, lower costs, enhance service, and further communication with the public.
- The Borough will maintain a budgetary control system to ensure adherence to the budget and will prepare monthly reports comparing actual expenditures to current appropriations.
- If it becomes apparent that revenue shortfalls or extraordinary expenses will create a deficit, efforts will be made first to replace the deficiency through budgetary management techniques. On an exception basis and not depleting the fund balances to an inappropriate level, the use of existing reserve funds may be recommended to cover revenue shortfalls. Debt will not be used to cover current operating expenses.
- The Borough is expected to continue its scheduled level of facility maintenance and replacement of its facilities and equipment in order to maintain its facilities and equipment in good operating condition.

### ***Revenue Policies***

- The Borough will attempt to develop a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source.
- The Borough will aggressively seek federal and state grants, with a target emphasis on capital improvements funding.
- The voter-approved tax limitation will be conservatively applied.
- The Borough will take all cost-effective actions available to collect delinquent revenues.

### ***Reserve Policies***

- Adequate reserves will be maintained for all known liabilities, including employee leave liabilities, workers' compensation liabilities, and self-insured retention amounts.
- The Borough will endeavor to maintain a reserve in each operating fund to cover revenue and expense variations and emergencies. The target reserve for operating funds with expenditures of more than \$500,000 is 7 to 10 percent of the prior year's

expenditure level; the target reserve for each operating fund with expenditure levels of less than \$500,000 is 20 percent of the prior year's expenditure level.

- The amount of the reserve requirement will be reviewed annually and may be increased by the amount necessary to meet future identified, one-time, and specific expenditures requiring the accumulation of funds over a given period.

### ***Debt Policies***

- The issuance of long-term debt will be only for construction and acquisition of land, capital improvements, or equipment, when the useful life of the asset will exceed the term of the debt.
- Debt financing will not be considered appropriate for current operating or maintenance expenses or for any recurring purposes.
- The Borough's preference is to issue fixed-rate long-term debt with level debt service. Other debt service structures may be considered if an economic advantage is identified for a particular project. The Borough's preference is to place the debt through a public bid process. It is recognized that a sale through negotiation may be considered due to fluctuating market conditions, time constraints, size or nature of the issue.

### **Investments and Investment Practices**

The Borough invests its ending daily cash balance in accordance with an overnight repurchase agreement, which normally results in a zero bank balance. The overnight repurchase agreement is collateralized by securities held in the Borough's name.

Fairbanks North Star Borough Code 3.04 specifies the following authorized investments and maximum maturity schedule:

- U.S. Treasuries - 5 years;
- other obligations of the U.S. Government or its agencies and instrumentalities - 5 years;
- repurchase agreements of securities specified above, subject to qualification of the financial institution and specified margin requirements - 5 years;
- collateralized certificates of deposits and other deposits - 5 years;
- bank or credit union deposits insured by FDIC, NCUA, or FSLIC - 5 years;
- bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years;
- prime commercial paper graded A1/P1 or higher - 270 days;
- prime bankers acceptances of the fifty largest international banks - 180 days;
- money market mutual funds consisting entirely of instruments specified above, maturity date not applicable; and
- the Alaska Municipal League Investment Pool, Inc., created in accordance with AS 37.23.020.

The Borough's Code also establishes an Investment Advisory Committee, composed of at least five members serving three-year terms. Members cannot be elected officials or Borough employees, and neither Investment Advisory Committee members nor members

of their immediate families, can be an officer, director, employee, or have a substantial financial interest in any financial institution listed on the Borough's qualified bidders list.

The Committee reports annually to the assembly on the status of the Borough's investment program, its compliance with Code 3.04, and the outlook for future investments. The Committee makes recommendations and suggestions to the mayor and assembly for the conduct and improvement of the Borough investment program. The Committee also consults with the mayor concerning the adoption of administrative procedures and internal controls needed to implement the investment code.

### **Risk Management and Insurance**

The Borough's risk management program includes both the Borough and the School District. The program employs a combination of insurance provided by commercial carriers, self-insured retention amounts, and participation in a public entity risk pool. Pool coverage or commercial insurance with small deductibles is secured for the following coverages: auto and general liability, property, and workers' compensation for fire service areas; general liability for road and street light service areas; physical damage to Borough vehicles; employee life insurance; and employee fidelity bonds. The program self-insures some portion of the following risk exposures: employee and dependent medical, auto and general liability, workers' compensation, errors and omissions/public officials, property, and employment practices. Pool coverage or commercial insurance has also been obtained for excess coverage above self-retention limits for all risk exposures except environmental. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Borough is a member of the Alaska Municipal League Joint Insurance Association (AML/JIA), a public entity risk pool formed to provide pooled property and liability insurance coverage to AML members. The AML/JIA has the option of requiring supplemental contributions from its members if annual contributions and other income are not sufficient to cover AML/JIA's aggregate pooled losses and expenses for any coverage year. Due to the Borough's high self-insurance threshold levels, the Borough has reduced exposure to any supplemental contributions. No supplemental contributions have been required of members in the last three fiscal years.

### **Management Discussion**

The Borough management has actively worked to combine existing departments or create new departments when necessary in order to provide the public with efficient service and operations. Where possible, special revenue funds have been converted to enterprise funds to provide for improved matching of the revenues, expenses, assets and liabilities.

The Borough has created and consistently funded separate funds for facilities maintenance and replacements. The Borough maintains over three million square feet of facilities in an extreme environment. A Facilities Maintenance Reserve Fund was established as a sinking fund for facilities maintenance. Using annual revenues and reserves from this fund the Borough is able to complete outstanding maintenance requirements. About \$11.7 million has been deposited in the fund since its creation. The Borough also created a Vehicle and Equipment Fleet Fund (VEFF) within the

Borough to keep its fleet of vehicles and equipment in a well-maintained state in a cost efficient manner. Further, the VEFF program allows for better cost allocations to Borough functions, thus improving management decision-making.

The Borough currently employs about 400 people of which approximately 80 percent are covered by collective bargaining units. The last negotiations took place in 2003 and agreements signed by the Borough are valid through June 30, 2006. The Borough has historically fully funded its retirement program.

The State of Alaska has been incrementally reducing its aid to local governments. The Borough has also seen declining school enrollments, which bring further reductions in state payments to the school district. State school funding does not provide a mechanism to deal with inflation and general price increases. The mayor and Borough assembly and other municipalities throughout the state continue to work with the state legislature to stop or reduce the cuts to local government.

Compliance with GASB 34 is complete with issuance of the FY 2003 CAFR.

## SCHOOL DISTRICT FINANCES

The school district is included as a component unit in the Borough's Comprehensive Annual Financial Report, and issues its own Comprehensive Annual Financial Report to meet compliance requirements of the Department of Education and Early Development. The school district's financial reports have received awards for excellence in reporting from both the Government Finance Officers Association and the Association of School Business Officials. The school district must adhere to specific reporting procedures in order to receive revenue under the state foundation program.

The school district accounts for all funds using the modified accrual basis with the exception of its risk management internal service fund, which is accounted for on a full accrual basis, in accordance with generally accepted accounting principles. The school operating fund accounts for all revenues and expenditures applicable to the district's general operations, and the special revenue funds account for legally restricted revenue. The school district only accounts for capital projects directly contracted and funded through state or federal agencies. The majority of school construction projects are accounted for on the Borough's books.

Table 14 shows five years of school district operating fund revenues and expenditures. Of the district's \$116.1 million operating fund revenues in 2002/03, state funding provided 60 percent and the Borough provided 29 percent. Federal pass-through revenues have varied due to changes in the timing of payments to the state and district. The state reduces foundation formula funding by the amount received from the federal government.

**Table 14 ■ Fairbanks North Star Borough School District  
Operating Fund Revenues and Expenditures**

	1998/99	1999/00	2000/01	2001/02	2002/03
<b>Revenues</b>					
Borough appropriation	\$ 30,690,780	\$ 30,690,780	\$ 32,045,700	\$ 32,555,700	\$ 33,545,700
Local sources	329,755	515,842	509,805	353,586	958,150
State sources	67,711,173	68,604,179	66,844,446	68,819,817	70,215,375
Federal pass-through	8,256,578	18,621,358	11,851,143	13,425,434	11,144,790
Federal sources	<u>132,542</u>	<u>103,743</u>	<u>193,435</u>	<u>207,831</u>	<u>248,837</u>
Total revenues	\$107,120,828	\$118,535,902	\$111,444,529	\$115,362,368	\$116,112,852
<b>Expenditures</b>					
Instruction	68,015,881	68,541,261	67,192,493	70,268,181	71,788,492
Supporting services	22,525,496	23,595,331	23,038,129	24,309,678	26,652,324
Operation & maint.	13,690,690	14,364,228	14,393,763	14,665,825	14,887,254
Pupil activities	1,523,947	1,742,970	1,477,402	1,425,684	1,483,249
Debt Service	-	-	-	-	205,484
Transfers	<u>1,625,948</u>	<u>1,659,793</u>	<u>1,364,206</u>	<u>3,426,956</u>	<u>2,433,012</u>
Total expenditures	\$107,381,962	\$109,903,583	\$107,465,993	\$114,096,324	\$117,449,815

Source: Financial statements of the Fairbanks North Star Borough School District

## School District Budget

Table 15 shows the district's 2003/04 operating fund budget. The school district establishes its final budget following action by the Borough assembly setting the local funding level. If the school district's local funding request is fully funded by the Borough, the budget process is complete. If not, the school board must adjust its budget based on the local contribution.

The school board is solely responsible for the allocation of its resources to programs. The Borough assembly cannot veto individual expenditure items in the school district budget. The school district budget must balance after the Borough appropriation is finalized. Consequently, school services are affected by the policies of both the Borough assembly and the school board.

State statute requires that the school district submit its budget to the commissioner of the state Department of Education and Early Development by July 15.

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**Table 15 ■ Fairbanks North Star Borough School District  
Operating Fund Budget**

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	2003/04
<b>Revenues</b>	
Borough appropriation	\$34,545,700
Local sources	719,240
State sources	68,840,460
Federal pass-through	9,917,770
Fund balance utilization	<u>4,085,870</u>
Total revenues	\$118,109,040
<b>Expenditures</b>	
Instruction	73,296,201
Supporting services	25,912,353
Operation and maintenance	15,575,042
Pupil activities	1,588,018
Transfers to other funds	<u>1,737,426</u>
Total expenditures	\$118,109,040

Source: Fairbanks North Star Borough School District

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The Borough's Code of Ordinances allows for the retention and carryover, from one year to the next, by the school district of no more than 7 percent of that fiscal year's state revenues and local contribution to education.

## **GENERAL AND ECONOMIC DATA**

### **Location, History, Climate**

The Borough lies in the Tanana River Valley in the interior of Alaska. It is bounded on the north by the foothills of the White Mountains. The Alaska Range, which includes Mt. McKinley (elevation 20,300 feet), is about 150 miles to the south, and the Arctic Circle is about 125 miles to the north. The City of Fairbanks is about 260 miles north of Anchorage.

The Borough covers 7,361 square miles in central Alaska. About one percent of the land is developed for urban, residential, agricultural, or other purposes. Two first-class cities are located within the Borough—Fairbanks and North Pole. Developed, non-military land in and around the cities totals about 35 square miles.

The City of Fairbanks was founded in 1901, after the discovery of gold in the area. A U.S. District Courthouse was established in Fairbanks in 1904. In 1923, Fairbanks became the northern terminus of the Alaska Railroad which links the city to the seaports of Anchorage, Seward, and Whittier. The railroad provided Fairbanks with a dependable, year-round transportation and communication system, enabling it to become the distribution center for central and northern Alaska.

In 1924, Noel Wien completed the first nonstop flight between Anchorage and Fairbanks in 3 hours and 45 minutes, a trip that took two days by train. At that time, Alaska was a nearly roadless territory, and settlements were widely scattered. Air transportation has played a vital role in Alaska ever since.

World War II further opened Alaska's Interior region. The construction of the Alaska Highway, terminating in Fairbanks, established the state's strategic importance. Military and defense establishments constitute an important segment of the Borough's economy. Fort Wainwright and Eielson Air Force Base are located within the Borough.

In 1968, oil and gas reserves were discovered on Alaska's North Slope, north of the Borough. The Borough was the staging, service, and supply center for the construction of the Trans Alaska pipeline. The discovery of oil and the construction of the transmission pipeline accelerated growth in nearly all sectors of the Borough's economy from 1974 through 1977. Two refineries operate within the Borough.

Fairbanks weather is continental interior, meaning lots of sun and very definite seasons. Winter extremes of -40 degrees (Fahrenheit) are balanced by summer days in the 70's and 80's. The average winter runs from October, with the first snowfall, through breakup in April, when the snow melts. Average winter temperature is -13 degrees. There is very little wind in Fairbanks, particularly during cold winter days. From November to March, daily sunshine ranges from four to ten hours. During June and July, the sun is above the horizon for 18 to 21 hours per day. Although total annual precipitation averages less than 11 inches, winter snowfall averages 65 inches.

## Population and Housing

Table 16 shows the populations of the Borough, the cities of Fairbanks and North Pole, and the State of Alaska. According to the 2000 census, the Borough's population was 82,840, an increase of about 7 percent from the 1990 population of 77,720 and 53 percent since 1980. The Borough's 2003 population is 82,214. The Borough believes their population is higher and is appealing this figure.

**Table 16 ■ Fairbanks North Star Borough  
Population**

Year	Borough <sup>(1)</sup>	City of Fairbanks <sup>(2)</sup>	City of North Pole	State of Alaska
1980	53,983	22,645	724	401,851
1990	77,720	30,843	1,456	550,043
1995	81,552	32,284	1,534	601,581
1996	81,883	31,431	1,504	605,212
1997	82,064	31,697	1,618	609,655
1998	83,045	31,528	1,588	617,082
1999	83,773	31,697	1,616	622,000
2000	83,814	31,423	1,557	628,800
2001	82,840	30,224	1,570	626,932
2002	82,840	30,224	1,570	626,932
2003	82,214	29,486	1,646	648,818

1 - Includes Fairbanks, North Pole, Fort Wainwright, and Eielson AFB.

2 - Includes population living on Fort Wainwright.

Source: FNSB Comprehensive Annual Financial Reports  
and State of Alaska, Department of Labor and Workforce  
Development, Research and Analysis Section, State Demographer

As of September 2002, the number of military personnel and family members totaled 17,703, a 15 percent increase over the previous year. The total military population comprises about 22 percent of total Borough population.

Table 17 shows the number of residential housing units sold and the average price per unit since 2000.

**Table 17 ■ Fairbanks North Star Borough  
Residential Housing Sales**

	Units Sold	Average Price Per Unit
<b>2000</b>		
1st Quarter .....	165	\$146,900
2nd Quarter .....	227	128,500
3rd Quarter .....	233	135,300
4th Quarter .....	182	125,400
<b>2001</b>		
1st Quarter .....	148	141,400
2nd Quarter .....	242	136,400
3rd Quarter .....	253	134,200
4th Quarter .....	292	137,800
<b>2002</b>		
1st Quarter .....	132	142,700
2nd Quarter .....	213	141,700
3rd Quarter .....	128	167,500
4th Quarter .....	220	157,100
<b>2003</b>		
1st Quarter .....	138	149,800
2nd Quarter .....	241	162,900
3rd Quarter .....	263	159,100
4th Quarter .....	251	162,900

Source: FNSB Community Research Quarterly, Winter 2003.

## Income

Table 18 shows median household effective buying income (EBI) for the Borough, the state, and the U.S. for the period from 1998 through 2002. Effective buying income is reported annually by *Sales & Marketing Management* magazine's "Survey of Buying Power." It is defined as money income less personal tax payments, a number often referred to as "disposable or "after-tax" income. Between 1998 and 2002, the Borough's EBI increased at an annual average rate of 2.9 percent. EBI is based on "money income," provided by the Census Bureau. Money income does not include certain sources, such as pay-in-kind income, lump-sum payments such as bonuses, interest and rent from property, and some proprietor's income and transfer payments.

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**Table 18 ■ Fairbanks North Star Borough  
Median Household Effective Buying Income**

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Year	Borough	State of Alaska	United States
1998	\$39,766	\$43,343	\$35,377
1999	41,299	45,040	37,233
2000	43,924	47,965	39,129
2001	45,890	48,987	38,365
2002	44,600	45,882	38,035

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Source: *Sales & Marketing Management* magazine, Survey of Buying Power.

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## Cities

**Fairbanks:** The City of Fairbanks, with a 2003 population of 29,486, is the largest in the Borough and the second largest in the state, after Anchorage. The city's population has increased about 30 percent since 1980, and decreased about 4.4 percent since 1990. Fairbanks is located at the confluence of the Chena and Tanana Rivers and has long served as the trade, transportation, government, education, finance, services, and information center for the Alaskan Interior and the North Slope. It is a transfer point for materials going north by rail to the terminus at Fairbanks and continuing on to the North Slope over the Dalton Highway. The urbanized area of the City of Fairbanks covers about 10.5 square miles.

**North Pole:** North Pole is located 11 miles southeast of Fairbanks, and is the only other incorporated city in the Borough. Its 2003 population of 1,646 has increased about 13 percent since 1990. The city's major industry is the Williams Alaska Petroleum, Inc. refinery, which produces heating oil, jet fuel, and gasoline from North Slope crude oil.

## Employment

Table 19 shows a five-year history of civilian employment by industry segment. The Alaska Department of Labor estimates average 2002 employment at 34,900, an increase of 100 jobs from the previous year.

**Table 19 ■ Fairbanks North Star Borough  
Average Annual Civilian Employment (by Industry) and Unemployment Rate**

Industry	1998	1999	2000	2001	2002
Mining, construction, & manufacturing	3,300	3,200	3,300	3,500	3,300
Transportation, communications, and utilities	3,000	3,100	3,150	3,250	3,200
Trade	6,900	6,900	6,800	6,800	6,600
Finance, insurance & real estate	1,100	1,200	1,250	1,200	1,200
Services & miscellaneous	8,200	8,400	8,500	8,900	9,500
Government - federal	3,400	3,300	3,350	3,350	3,300
Government - state	4,400	4,400	4,550	4,700	5,000
Government - local	<u>2,800</u>	<u>3,000</u>	<u>3,000</u>	<u>3,050</u>	<u>3,000</u>
Total	33,000	33,400	33,950	34,800	34,900
Unemployment rate	5.6%	5.9%	6.1%	5.7%	6.7%

Totals may not add due to rounding.  
Source: Alaska Department of Labor

Table 20 lists the largest employers in the Borough. The largest individual employers are government related.

**Table 20 ■ Fairbanks North Star Borough  
Largest Employers, 2002**

Employer	Business Activity	Employees
Federal government <sup>(1)</sup>	Government	3,490
University of Alaska, Fairbanks	Education	3,240
Fairbanks North Star Borough School District	Education	2,040
State government <sup>(2)</sup>	Government	1,680
Banner Health System	Hospital	1,110
Tanana Chiefs Conference	Social services	670
Fred Meyer, Inc.	Grocery/retail	550
Fairbanks North Star Borough	Government	420
Houston/Nana Joint Venture	Oilfield Services	410
Fairbanks Gold Mining Co. (Ft. Knox)	Hard rock mining	380
Home Depot	Home improvement/retail	340
Safeway	Grocery/retail	290
Fairbanks Native Association	Social services	270
Alyeska Pipeline Service Company	Oil	240
Tanana Valley Medical Surgical Clinic	Health	240

1 - Excludes military uniformed personnel.

2 - Total state government minus University of Alaska.

Source: Fairbanks North Star Borough

**Government Sector:** The University of Alaska Fairbanks (UAF) employs 3,235 and is the Borough's largest employer. UAF accounts for 66 percent of persons employed by the state within the Borough. Along with other federal, state, and school district employees, and with civilian jobs at Fort Wainwright and Eielson Air Force Base, government is the second largest sector in terms of employment with 25 percent of the Borough's workforce. Eight percent of the work force is federally employed, 11 percent is state employed, and six percent is locally employed.

**Services and Trade Sectors:** Hotel/motel room receipts amounted to \$35.8 million in 2002, an 8 percent decrease from 2001. Partial data from 2003 show a 10 percent increase over 2002 receipts through the end of the third quarter. The services sector, to which tourism significantly contributes, has grown to become the largest employment sector with 27 percent of total Borough employment. The trade sector accounts for about 19 percent of the Borough's employment.

**Transportation, Communications, and Utilities Sector:** This sector accounts for 9 percent of total employment and includes employees of Alaska Communications Systems as well as Alyeska Pipeline Service Company and others.

**Construction, Manufacturing and Mining Sectors:** These employment sectors provide 6.4 percent, 1.6 percent, and 1.4 percent, respectively, of total employment. Although mining is a small employer, it provides local jobs and brings in new money to the local economy, including property tax revenues. Mining also includes the oil and gas industries which are important to the statewide economy.

**Other Employment:** The Banner Health System is the largest non-governmental employer with 1,110 full-time employees. Tanana Chiefs Conference is a nonprofit corporation representing Interior Athabaskan Indian villages. Tanana Chiefs manages social service programs for 43 interior villages and employs 669 in Fairbanks. Fred Meyer, Inc., a grocery and retail store chain with two stores in Fairbanks, employs 545. A recently opened Home Depot employs 340. A Walmart is expected to open in spring 2004.

## **Military**

Fort Wainwright, formerly known as Ladd Army Air Field, was built in 1941 as a cold weather test station and is comprised of 916,000 acres. During World War II, it served as the transfer point for nearly 8,000 aircraft transferred from the U. S. to the Soviet Union. Ladd Airfield was transferred to the Army in 1961.

In 2003, Stryker Brigade Combat Team 3 (SBCT 3) composed of 3,600 men was assigned to Fort Wainwright as the 172<sup>nd</sup> Infantry Brigade. SBCT 3 is one of four Stryker Brigades being deployed as a crucial step in the Army's efforts to transform its forces into rapidly deployable, sustainable and survivable force units. The SBCT is an infantry-centric unit that can deploy anywhere in the world within 96 hours, and is built around a medium-weight 19-ton Stryker combat vehicle.

The Army plans to use SBCTs as a prototype for the future of the entire Army, a transformation to take place over the next decade, making SBCT 3 (and by extension, Fort Wainwright) an important element in the Army's future. A strategic decision has been made that medium-weight units such as the SBCT will be more valuable assets in the new global security environment than the current mix of light-weight infantry units, which can be delivered to a theater quickly but do not have staying power against enemy armor, and heavy-weight armor units, which cannot be rapidly deployed. The SBCT concept is to combine the rapid deployment abilities of light-weight forces, with the strength and counterattack survivability attributes of heavy-weight forces.

Eielson Air Force Base is located 26 miles south of Fairbanks and consists of 22,035 acres with access to an additional 40,000 acres. Originally built in 1944 as an auxiliary weather-alternate field for Ladd Army Field, the base was known as Mile-26-Strip. After being mothballed at the end of World War II, the base was reopened in 1946 and transformed into a large bomber base because of the onset of the Cold War. Eielson Air Force Base is home to the 354th Fighter Wing, 18th Fighter Squadron, 355th Fighter Squadron, 353rd Combat Training Squadron, and the 168th Air Refueling Wing.

Table 21 shows military personnel, family members and civilian employment at Fort Wainwright and Eielson Air Force Base. For the 2001/02 fiscal year, 4,490 military personnel and 5,591 family members were stationed at Fort Wainwright. Civilian employment was 1,135 and combined military and civilian payroll was \$229.8 million. For the 2001/02 fiscal year, 3,516 military personnel and 4,106 family members were stationed at Eielson Air Force Base. Civilian employment was 872 and combined military and civilian payroll was \$161.1 million.

**Table 21 ■ Fairbanks North Star Borough  
Military Population and Employment**

	1997/98	1998/99	1999/00	2000/01	2001/02
<b>Fort Wainwright</b>					
Military personnel	4,378	4,804	4,024	4,047	4,490
Family members	5,601	5,282	5,235	5,233	5,591
Civilian Employment	1,155	1,180	1,169	1,231	1,135
Payroll (millions of dollars)					
Military	\$143.7	\$168.7	\$148.0	\$155.9	\$180.9
Civilian	52.0	46.4	46.0	45.4	48.9
<b>Eielson Air Force Base</b>					
Military personnel	2,713	2,680	2,835	2,879	3,516
Family members	4,292	4,050	3,915	3,237	4,106
Civilian Employment	784	798	917	880	872
Payroll (millions of dollars)					
Military	\$95.6	\$102.2	\$107.4	\$114.6	\$129.1
Civilian	29.0	30.6	23.7	25.6	32.0

Source: FNSB Community Research Quarterly, Winter 2003.

## Retail Sales

Retail sales totaled \$1.1 billion in 2002, according to *Sales & Marketing Management Magazine*. This is an increase of about 4 percent from 2001. Retail sales increased at an average annual rate of 4.8 percent between 1998 and 2002. Table 22 shows retail sales by category from 1998 through 2002.

**Table 22 ■ Fairbanks North Star Borough  
Retail Sales (\$000)**

	1998	1999	2000	2001	2002
Food	\$156,344	\$105,165	\$108,481	\$92,370	\$82,569
Eating & drinking places	86,024	91,234	60,254	69,986	66,670
General merchandise	112,308	307,559	326,652	305,277	373,312
Furniture & appliances	41,933	29,318	29,312	27,139	29,735
Automotive	262,467	354,122	351,692	327,139	301,991
All Other	<u>277,779</u>	<u>291,160</u>	<u>293,027</u>	<u>262,773</u>	<u>273,860</u>
Total	936,855	1,178,558	1,169,418	1,084,684	1,128,137

Source: Sales & Marketing Management Magazine, Survey of Buying Power

## Construction

Table 23 shows building permits and valuation in the Borough since 1998. Total residential valuation for the first 3 quarters of 2003 was up 50 percent over the same period in 2002. Building permits are not required in many areas of the Borough and data is not available for public and military construction, so the building permit data shown in Table 23 is only an indicator of construction activity.

**Table 23 ■ Fairbanks North Star Borough  
Building Permits and Valuation in Thousands of Dollars<sup>(1)</sup>**

Year	Residential		New		Total
	Units	Residential	Commercial	Other <sup>(2)</sup>	
1998	246	\$25,197	\$35,825	\$34,777	\$95,799
1999	198	23,895	93,280	6,525	123,700
2000	159	16,291	59,701	2,443	78,435
2001	270	27,177	65,816	6,831	99,824
2002	218	29,506	73,514	21,069	124,089
2003	355	46,124	52,784	14,352	113,260

1 - Excludes value of federal and state construction.

2 - Includes new structures, alterations and additions.

Source: FNSB Community Research Quarterly, Winter 2003.

The first 9 months of 2003 saw 282 residential units added, a 48 percent increase over the same period in 2002.

## **Oil and Gas Industry**

**Oil Pipeline:** The discovery in 1968 of a vast oil and gas region on the arctic North Slope of Alaska marked the opening of another era in the economic development of the state. The 800-mile, \$8 billion Trans Alaska pipeline system began transporting crude oil from Prudhoe Bay on the North Slope to shipping facilities in south-central Alaska at Valdez in 1977.

The state receives a royalty on all gas and oil production from both state and federal lands; the state receives 90 percent of royalties received by the federal government from leases of federal lands in the state. The proven reserves of the Prudhoe Bay region on the North Slope are within state lease areas. The state's royalty is one-eighth of the oil production, which it may take in-kind or as royalty payments based on the dollar value of the production. Petroleum production activities also provide the state with revenue from oil and gas severance taxes, corporate taxes, and ad valorem taxes on petroleum production and transportation facilities in the state.

**Gas Pipeline:** In October 1999 voters in the Borough, the North Slope Borough, and Valdez approved creation of the Alaska Gasline Port Authority, to develop, own and operate a natural gas pipeline. The proposed pipeline would transport natural gas from the North Slope oil fields to the Canadian border, for further shipment to the lower 48 states or international markets. In November 2002 an initiative was presented to state voters that would create a gas pipeline development authority as a public corporation of the state. This measure received a 61 percent yes vote.

In January 2004, the governor of Alaska formally accepted for consideration two competing bids for construction of the proposed gas pipeline. One bid was received from MidAmerican Energy Holdings, a privately held company primarily owned by Berkshire Hathaway. The other bid submitted was prepared by a consortium of producers with existing oil operations in the North Slope area, including ConocoPhillips, BP, and Exxon Mobil. The announcement, made at an event in the Borough, signals the first concrete step in construction of the gas pipeline. After the bids are reviewed, a contract will be negotiated with the winning bidder. A MidAmerican official has stated that construction could begin in late 2006 or 2007 with a possible completion date of 2010.

The Bush Administration's proposed energy bill (H.R. 6) contains significant incentives, including reduced permitting burdens, guaranteed loans, and certain tax advantages for the construction of the gas pipeline.

## **FNSB Oil and Gas Operations**

Two oil refineries are located in the Borough. Williams Alaska Petroleum, Inc. (formerly MAPCO), in North Pole, began operations in 1977 and currently refines and transports approximately 75,000 barrels and transports an additional 145,000 barrels of crude oil per day, with both functions operating at or near capacity. Flint Hills Resources, a Division of Koch Industries, has recently agreed to purchase the Williams Alaska refinery in a transaction expected to close in the spring of 2004. Flint Hills has publicly announced intentions to make a \$100 million capital investment into the refinery by mid 2006 in order to add the capability to refine ultra low sulfur diesel and low sulfur gas. The PetroStar refinery, constructed in 1985, has a capacity of 16,000 barrels per day and supplies jet fuel directly to Eielson Air Force Base by pipeline. The refinery produces kerosene, diesel, heating, and jet fuels.

## **Mining**

Gold was discovered in Fairbanks in 1901. The eastern interior region of Alaska, centered at Fairbanks, is not only the state's leading gold-producing region, but also holds potential for the discovery and development of new mines. The proposed gas pipeline has been received warmly by local mining interests, as inexpensive local delivery of natural gas could make new mining operations and techniques economically feasible and allow further extraction of mineral wealth.

The Fort Knox gold mine is located 15 miles northeast of Fairbanks. Commercial production started in March 1997 and continues 24 hours a day, 365 days a year. The mine has produced more than 3 million ounces of gold since it began operations at a rate of approximately 400,000 ounces per year; the estimated remaining reserves of 2.7 million ounces should be sufficient to sustain operations through 2010.

Development and construction of a mile-long exploratory tunnel to access the Pogo gold deposit, outside the Borough's southern boundary, was begun in 1999. The Pogo deposit is believed to contain 5.6 million ounces of gold. The mine is expected to be fully operational by mid-2006. Estimated production is 375,000 ounces annually, with a mine life of 11 years. During primary construction, lasting approximately 30 months, the mine will employ 700; regular mining operations will provide 300 jobs.

Usibelli Coal Mine, Inc. (UCM), Alaska's only coal producer, was founded in 1943. It is located about 120 miles south of the Borough. Today, the mine has a workforce of about 125 employees and operates year-round. UCM produces an average of 1.3 million tons of low sulfur coal annually with about 70 percent sold in Interior Alaska where it is used in power plants to produce heat and electricity. The remaining tons are shipped by railroad to Seward, Alaska for export to South Korea. Capacity exists to increase total production to approximately 3 million tons per year with minimal capital expenditure. UCM has ample reserves of 50 million tons of proven reserves permitted for mining, an additional 100 million tons of proven reserves amenable to mining, and unproven reserve estimates of an additional 250 million tons.

## **University of Alaska**

The University of Alaska Fairbanks was established in 1917 as the Alaska Agricultural College and School of Mines. The 2,250-acre campus is located about four miles from downtown Fairbanks, and is the flagship of the state university system, which also includes campuses in Anchorage and Juneau. The 2003 fall enrollment of the Fairbanks campus was 8,736. The campus is made up of four colleges and five professional schools. UAF is the largest single, non-military employer in the Borough with about 3,235 faculty and staff.

In 1999 the \$30 million International Arctic Research Center, an expansion of the Geophysical Institute on UAF's main campus was completed, adding 80,000 square feet of research and laboratory space for scientists. Nearly 60 percent of the project funding is an investment from the Japanese government. At the Institute scientists can study a whole spectrum of geophysical processes ranging from the center of the earth to the center of the sun and beyond. An agreement was signed with the Japanese government at the Geophysical Institute in January 1996 to embark on a ten-year research project to study global climate change, the destruction of the ozone layer, acid rain, and other problems with the earth's environment. Additionally, the Japanese will install approximately \$10 million of instrumentation at the Poker Flats facility to complete the research.

UAF has the nation's only university-owned and operated sounding rocket launching facility. Poker Flats Research Range is located about 30 minutes from Fairbanks. The Alaska Synthetic Aperture Radar Facility, the only receiving station within the U.S. set up to receive, process and archive information from polar orbiting earth observation satellite is located at the Geophysical Institute. UAF is also home to the Arctic Region Supercomputing Center.

## Transportation

From Fairbanks International Airport, it is fifty minutes by air to Anchorage, four hours to Seattle, eight hours to Tokyo, eight and one-half hours to New York and nine and one-half hours to London. Several airlines operate passenger and cargo service from the airport. The airport is also used by airplane manufacturers to test new planes for use in cold weather. Table 24 shows a history of passengers, freight operations, and landings at the airport.

In 1998, the airport completed a \$9.6 million federal and state-funded project to lengthen a runway and improve service for cargo carriers. The extension of the runway allows larger, heavier planes to use the airport as a service center in future years. An expansion of its public and rental car parking areas was completed in 1999.

Fairbanks is the terminus of the Alaska Railroad, which extends about 480 miles from Seward through Anchorage to Fairbanks. During the summer, the railroad operates daily passenger service between Fairbanks and Anchorage, with a stop at Denali National Park. The railroad's most important role is cargo transportation, primarily coal, fuel, trailer and container shipments, motor vehicles, and heavy equipment. About one-third of the annual coal production from the Usibelli Coal Mine in Healy is shipped north each year by railroad. Gasoline from the Williams refinery in North Pole is shipped south on the railroad.

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**Table 24 ■ Fairbanks International Airport  
Operating Statistics**

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	1999	2000	2001	2002	2003
Passengers - incoming	404,896	404,997	411,570	420,856	423,834
Passengers - outgoing	401,878	403,565	407,975	409,626	417,959
Revenue landings	26,581	27,096	29,322	28,943	29,738
Freight - incoming*	13,890	13,554	12,700	14,533	17,153
Freight - outgoing *	57,637	54,842	54,134	59,659	52,806

\* Thousands of pounds

Source: FNSB Community Research Quarterly, Winter 2003.

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## Community Facilities

**Education:** In addition to the public school system and the University of Alaska, a number of private schools are located in the Borough. Tanana Valley College, a non-baccalaureate part of the university system, offers academic, technical-vocational, and personal-interest programs.

**Library:** The Borough library system consists of the Noel Wien Library, the North Pole Branch Library, and van delivery service to homebound patrons and small communities throughout the Borough. The Noel Wien Library also provides grant-funded mail library service to northern and south-central Alaska.

**John A. Carlson Community Activity Center:** The Carlson Center provides space for sports, meetings, and conventions. The center, opened in 1990, is a multi-purpose facility, which can be configured from hockey rink to basketball court to concert seating. The 100,000 square-foot center has a seating capacity of 6,500. The center hosts an average of 175 event days per year (not including ice rental) with an attendance of 150,000 to 175,000 per year.

## **Tourism and Recreation**

Tourism is of increasing importance to the Borough. According to the Fairbanks Convention and Visitors Bureau bed tax collections have increased by nearly 60 percent over the five-year period through 2002. The Alaska Visitors Statistics Program reports that about 440,000 people annually visit the area. Investment in tourism infrastructure is reflected in the Borough's increased assessed valuation. Facilities and amenities available for visitors to enjoy are also available for residents.

Fairbanks has abundant indoor and outdoor recreational facilities, including swimming pools, downhill and cross-country skiing, hiking and bicycle trails, golf courses, and softball and soccer fields. Community events include the annual Yukon Quest, a Fairbanks-to-Whitehorse, Canada, sled dog race; the North American Sled Dog Racing Championships; Fairbanks Winter Carnival; Tanana Valley Fair; and the World Eskimo Indian Olympics.

The University of Alaska Museum is a major visitor attraction. The museum includes Alaskan Native artifacts, botanical and natural history exhibits, and mineral and fossil samples. The museum has a continuous research program.

The 2,200-acre Chena Lakes Recreation Area was completed in 1984 by the Army Corps of Engineers as part of the Chena River flood control project. The \$190 million project, about 15 miles south of downtown Fairbanks, is the Corps' largest project in Alaska and its only recreation project in the state. Facilities include a 260-acre lake, two campgrounds with 88 campsites, boat launch, swimming beach, playground, volleyball facilities, and numerous picnic areas including three covered pavilions. The park draws about 78,000 visitors annually.

Pioneer Park (formerly Alaskaland), owned by the Borough, is a 44-acre theme park built in 1967 to commemorate the centennial of the Alaska purchase. It is a recreated gold rush town of the 1900s, and includes restored original buildings moved in from the Fairbanks area, which now house retail businesses and restaurants. The park hosts conventions, fairs, and carnivals, and includes a civic center and art gallery which operates year-round. The park also includes playgrounds and picnic facilities.

Denali National Park is located about 150 miles south of Fairbanks. The park, open year-round, covers 4.3 million acres and includes Mt. McKinley, the highest peak in North America. Adjoining the park is the Denali National Preserve, covering 1.3 million acres.

**APPENDIX A**  
**GENERAL PURPOSE FINANCIAL STATEMENT**  
**FAIRBANKS NORTH STAR BOROUGH, ALASKA**  
**Fiscal Year Ended June 30, 2002**

**Cook & Haugeberg** LLC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Assembly  
Fairbanks North Star Borough

We have audited the accompanying general-purpose financial statements and the combining and individual fund and account group financial statements of the Fairbanks North Star Borough as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Fairbanks North Star Borough's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fairbanks North Star Borough as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Fairbanks North Star Borough, as of June 30, 2002, and the results of operations of such funds and the cash flows of the individual proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1B, the Fairbanks North Star Borough School District, a component unit of the Fairbanks North Star Borough as described in Note 1A, has implemented, and its inclusion in these financial statements is based on, a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement No. 37, as of June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2002, on our consideration of the Fairbanks North Star Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as "Additional Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Fairbanks North Star Borough. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose, combining and individual fund and account group financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The other data included in this report, designated as the "Statistical Section" in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

*Cook & Haugeberg LLC*

November 22, 2002

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FAIRBANKS NORTH STAR BOROUGH  
Combined Balance Sheet  
All Fund Types and Account Groups  
and Discretely Presented Component Unit  
June 30, 2002  
With Comparative Totals for June 30, 2001

	FAIRBANKS NORTH STAR BOROUGH										REPORTING ENTITY Total (Memorandum Only)		
	GOVERNMENTAL FUND TYPES					PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE		ACCOUNT GROUPS		COMPONENT UNIT SCHOOL DISTRICT	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Debt	General			2002
Assets	\$22,261,185	\$12,316,477	\$23,009	\$25,849,885	\$23,424,440	\$987,839	\$1,764,382	\$	\$	\$88,224,427	\$81,234,611	\$23,760,877	\$169,985,104
Equity in central treasury cash													
Tax receivable (net of allowance for uncollectibles 2002)													
Accounts receivable (net of allowance for uncollectibles 2002 - \$2,983,895; 2001 - \$3,180,920)	602,306	33,409			203,788		238,203			1,077,706	1,061,325		1,077,706
Accounts receivable (net of allowance for uncollectibles 2002 - \$200,486; 2001 - \$216,345)	74,628	340,487		2,438	627,488		31,128			1,040,611	1,005,778	6,048,643	7,089,154
Accrued interest receivable	282,047				28,768					342,361	879,650		342,361
Interfund receivable	386,761									386,761	290,733		386,761
Due from Borough	559,353			665,816	70,165	1				1,842,000	2,523,323	85,612	1,842,000
Inventories	1,249,878				9,803,309					6,603,308	8,341,039	667,000	10,290,309
Other assets					1,996,929					1,249,878	1,144,465	863,743	2,213,619
Contracts receivable										1,996,929	1,707,211		1,996,929
Fixed assets (net, where applicable, of accumulated depreciation)					23,851,516	2,703,368		471,515,694		900,070,577	494,558,872	3,951,359	603,921,946
Other Debts													
Amount available in debt service fund									23,009	23,009	100,133		23,009
Amount to be provided for retirement of general long-term debt										110,876,919	117,329,478		110,876,919
Assets and other debits total	\$25,403,038	\$13,240,045	\$23,009	\$28,518,282	\$31,807,409	\$1,298,328	\$2,033,713	\$471,515,694	\$	\$714,737,406	\$710,144,623	\$35,396,944	\$760,134,350

See accompanying notes to financial statements.

FAIRBAIKS NORTH STAR BOROUGH

Combined Balance Sheet  
All Fund Types and Account Groups  
and Disclosed Presented Component Unit  
June 30, 2002  
With Comparative Totals for June 30, 2001

Exhibit 1  
Sheet 2 of 2

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FUND TYPE	ACCOUNT GROUPS		FAIRBAIKS NORTH STAR BOROUGH		COMPONENT UNIT	REPORTING ENTITY
	General	Social Revenue	Debt Service	Capital Projects	Enterprise	Internal Service		General Fund Assets	Long Term Debt	2002	2001		
Liabilities:													
Accounts payable	854,249	568,164	\$	5,130,035	3,772,741	\$	\$	\$	53,142,691	32,801,551	6962,481	54,105,172	
Wages and payroll taxes	500,000				37,351				558,441	514,901	644,271	1,148,712	
Accrued annual leave	1,152,727				214,599				1,367,378	1,292,440	2,075,353	3,387,678	
Accrued self-insurance losses	750,724				153,519				906,273	835,066	4,102,837	5,012,110	
Interim payable		284,476		102,285					386,761	290,713	184,751	78,540	
Due to School District				78,580					78,580	21,978		250,315	
Deposits from others	126,831				1,342				230,375	267,655	38,559	722,615	
Deferred revenues	4,356,602			151,038	20,000				4,380,739	4,403,264	4,416	126,540,740	
Undistributed grant revenues					14,606,432	1,073,885			176,580,765	132,816,773		176,580,765	
Advance for payments					589,395	49,211			618,608	813,657		618,608	
Long-term debt					512,352			110,809,978	512,352	501,781		512,352	
Accrued interest payable													
Unamortized debt on lease contracts													
Equity and Other Credits	7,540,525	976,870		1,764,958	16,531,680	1,137,306	283,008	110,809,978	139,125,673	143,717,812	7,720,501	148,848,111	
Investment in general fund assets													
Contributed capital													
Retained earnings					42,014,113	2,216,787		671,515,691	471,515,691	483,350,781		471,515,691	
Reserve for asset replacement					314,587				44,230,900	43,508,153		44,230,900	
Unreserved					2,843,839	(2,855)			314,587	322,617		314,587	
Item assets									2,899,804	2,716,646		2,899,804	
Invested in capital assets (non-depreciable)													
Fund balances (debit)	231,860	900,714		11,077,734					12,210,478	8,233,238	3,851,369	23,825,074	
Unassigned													
Assigned for net reinvested investment gains	146,000												
Assigned for education	1,000,000												
Assigned for solidwaste	880,740	531,310	15,470										
Assigned for self-insurance losses	1,500,000												
Assigned for system replacements and repairs		819,288											
Unassigned	14,403,861	10,009,726	7,579	13,875,511					146,009	308,315		146,009	
Equity and other credits total	17,862,511	12,201,066	23,009	21,752,295	45,272,510	2,177,937	1,730,106	471,515,691	37,900,027	45,647,548	3,851,369	23,825,074	
Liabilities, equity and other credits total	\$25,403,035	\$13,210,045	\$21,000	\$26,618,262	\$61,807,100	\$1,290,278	\$2,033,713	\$471,515,691	\$71,737,106	\$710,144,821	\$35,396,814	\$750,124,350	

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit)  
All Governmental Fund Types and Expendable Trust Fund  
Year Ended June 30, 2002  
With Comparative Totals for Year Ended June 30, 2001

Exhibit II

	GOVERNMENTAL FUND TYPES			FINANCIAL FUND TYPE	Totals	
	General	Special Revenue	Debt Service		2002	2001
<b>Revenues</b>						
Taxes	857,281,546	\$9,328,227	\$		186,590,226	181,039,094
Intergovernmental revenues	12,272,453	4,291,078			17,861,828	18,543,805
Charges for services	1,270,557	709,326			1,979,877	1,936,935
Charges to School District	786,814				786,814	855,643
Other revenues	4,963,745	1,265,969	6,107		7,499,811	8,800,331
Revenue total	76,566,117	15,595,094	6,107		94,748,408	91,175,960
<b>Expenditures</b>						
Current						
General government	9,881,127	8,763,225			18,744,351	18,102,414
Community planning	1,117,465	87,661			1,205,126	1,159,506
Public works	2,513,069	3,201,271			6,714,340	6,546,083
Public services	1,265,600				1,265,600	1,217,117
Emergency operations	233,075	1,323,338			1,616,414	1,481,282
Parks and recreation	4,051,609				4,051,609	3,831,937
Library	2,813,106				2,813,106	2,801,774
Capital outlay	516,370	409,837			926,207	10,109,866
Principal retirement			6,715,000		6,715,000	6,030,000
Interest and fiscal agent fees			6,336,070		6,336,070	5,509,598
Expenditures total	23,841,721	13,875,221	13,171,070		58,310,298	58,804,835
Excess (deficiency) of revenues over expenditures	52,924,396	1,719,872	(13,171,961)		38,438,126	34,371,133
<b>Other financing sources (uses)</b>						
Operating transfers in		1,122,201	13,042,840		17,601,504	19,454,423
Operating transfers out	(16,808,052)	(1,506,039)			(20,598,125)	(21,811,872)
Operating transfers to School District	(37,555,700)				(37,555,700)	(32,045,700)
Transfers from parents		(383,835)			(383,835)	18,050,000
Other financing sources (uses) total	(51,441,551)	1,438,367	13,042,840		(32,965,344)	(16,353,218)
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,482,845	1,351,509	(77,121)		2,865,233	17,917,914
Fund balances (deficit) July 1	18,242,286	10,825,141	100,133		29,167,560	49,559,200
Residual equity transfers	150,000				150,000	(11,861,409)
Fund balances (deficit) June 30	\$17,092,286	\$10,825,141	\$100,133		\$29,067,560	\$37,697,791

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

EXHIBIT III

School District  
Discretely Presented Component Unit  
Statement of Activities  
Year Ended June 30, 2002

Functional Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$68,171,159	\$125,591	\$5,615,977	\$711,981	(\$60,185,200)
Special education instruction	13,387,204		1,821,210		(11,557,994)
Special education support services - students	1,681,325				(1,681,325)
Support services - students	6,527,878		1,281,621		(5,246,257)
Support services - instruction	3,081,773		1,010,251		(2,071,522)
School administration	4,790,454		21,209		(4,769,245)
School administration support services	2,811,784				(2,811,784)
District administration	1,320,843				(1,320,843)
District administration support services	\$,319,509	\$16,838	18,387		(1,481,374)
Operations and maintenance of plant	14,704,252				(14,704,252)
Student activities	1,427,340				(1,427,340)
Student transportation services	8,487,332		8,123,457		(363,875)
Adult and continuing education instruction	176,035		60,788		(115,247)
Food services	4,222,804		2,229,091		(1,993,713)
Total governmental activities	\$130,240,112	\$78,690,867	\$70,181,021	\$731,981	(\$117,053,769)

General revenues:

Grants and contributions not restricted to specific programs:

Borough direct appropriation	37,555,700
Foundation program	66,522,710
Federal project aid	13,428,434
Other	2,530,417
Miscellaneous	325,087
Total general revenues	118,362,328

Change in net assets

Net assets - beginning

Net assets - ending

Change in net assets	2,408,100
Net assets - beginning	25,270,312
Net assets - ending	\$27,678,412

See accompanying notes to financial statements.

**FAIRBANKS NORTH STAR BOROUGH**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**General, Certain Special Revenue and Debt Service Funds**  
**Year Ended June 30, 2002**

Exhibit IV  
 Sheet 1 of 2

	GENERAL FUND			SPECIAL REVENUE FUNDS WITH ANNUAL BUDGETS			OTHER SPECIAL REVENUE FUNDS		TOTAL SPECIAL REVENUE FUNDS
	Budget	Actual	Adjustment to Budgetary Basis	Budget	Actual	Adjustment to Budgetary Basis	Budgetary Basis	Actual	Actual
<b>Revenues</b>									
Taxes	\$4,206,310	\$3,761,548	\$	16,378,727	16,378,727	\$	16,378,727	16,378,727	10,228,727
Intergovernmental revenues	11,171,460	12,373,453		313,493	313,493		313,493	313,493	4,281,078
Charges for services	1,302,850	1,270,557		708,320	708,320		708,320	708,320	109,320
Charges to School District	1,018,010	708,814		432,418	432,418		432,418	432,418	1,263,069
Other revenues	5,542,521	4,963,745		10,784,929	10,784,929		10,784,929	10,784,929	15,995,091
<b>Revenues total</b>	<b>23,261,151</b>	<b>23,078,117</b>	<b>183,034</b>	<b>28,980,886</b>	<b>28,980,886</b>	<b>183,034</b>	<b>28,980,886</b>	<b>28,980,886</b>	<b>42,517,925</b>
<b>Expenditures</b>									
Current									
General government	10,918,310	8,081,127	(2,837)	6,470,002	6,470,002	(2,837)	6,470,002	6,470,002	8,783,225
Community planning	1,171,465	1,171,465		87,461	87,461		87,461	87,461	87,461
Public works	3,463,145	3,463,145		2,791,371	2,791,371		2,791,371	2,791,371	3,201,371
Other services	1,245,609	1,245,609		1,473,810	1,473,810		1,473,810	1,473,810	1,390,318
Emergency operations	242,566	273,072		189,287	189,287		189,287	189,287	
Public and recreation	4,232,844	4,051,069	(17,200)	189,287	189,287		189,287	189,287	
Library	2,022,506	2,022,506		189,287	189,287		189,287	189,287	
Capital outlay	815,313	946,878	131,565	189,287	189,287		189,287	189,287	409,817
Debt service									
Interest and fiscal agent fees									
<b>Expenditures total</b>	<b>23,259,139</b>	<b>23,841,721</b>	<b>(682)</b>	<b>28,980,886</b>	<b>28,980,886</b>	<b>(682)</b>	<b>28,980,886</b>	<b>28,980,886</b>	<b>42,517,925</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>23,261,151 - 23,259,139 = 2,012</b>	<b>23,078,117 - 23,841,721 = (8,763)</b>	<b>183,034 - (682) = 182,352</b>	<b>28,980,886 - 28,980,886 = 0</b>	<b>28,980,886 - 28,980,886 = 0</b>	<b>183,034 - (682) = 182,352</b>	<b>28,980,886 - 28,980,886 = 0</b>	<b>28,980,886 - 28,980,886 = 0</b>	<b>42,517,925 - 42,517,925 = 0</b>
<b>Other financing sources (uses)</b>									
Operating transfers in	(7,120,742)	(8,888,852)		(18,888,852)	(18,888,852)		(18,888,852)	(18,888,852)	1,372,204
Operating transfers to School District	(22,555,000)	(22,555,000)		(22,555,000)	(22,555,000)		(22,555,000)	(22,555,000)	(1,506,019)
Other financing sources (uses) total	(29,675,742)	(31,443,852)		(31,443,852)	(31,443,852)		(31,443,852)	(31,443,852)	(323,225)
<b>Excess (deficiency) of revenues and other services over expenditures and other uses</b>	<b>(7,120,742) - (29,675,742) = (36,796,484)</b>	<b>(31,443,852) - (31,443,852) = 0</b>	<b>182,352 - 0 = 182,352</b>	<b>0 - 0 = 0</b>	<b>0 - 0 = 0</b>	<b>182,352 - 0 = 182,352</b>	<b>0 - 0 = 0</b>	<b>0 - 0 = 0</b>	<b>1,372,204 - (1,506,019) = (133,815)</b>
<b>Fund balances (funds), July 1</b>	<b>(53,758,400)</b>	<b>1,469,744</b>	<b>\$30,809</b>	<b>\$1,500,335</b>	<b>\$1,500,335</b>	<b>\$30,809</b>	<b>\$1,500,335</b>	<b>\$1,500,335</b>	<b>1,338,927</b>
<b>Itemized equity transfers</b>									
Fund balance (fiscal), June 30		16,242,768							10,973,141
		150,000							112,261,068
		\$17,892,768							\$12,261,068

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Exhibit IV  
Sheet 2 of 2

Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual  
General, Capital Revenue and Debt Service Funds  
Year Ended June 30, 2002

	Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
<b>Revenues</b>					
Taxes					
Intergovernmental refunds					
Charges for services					
Charges to School District					
Other revenues		6,107		6,107	6,107
Revenues total		6,107		6,107	6,107
<b>Expenditures</b>					
Current					
General Government					
Community planning					
Public works					
Debt services					
Emergency operations					
Parks and recreation					
Library					
Capital outlay					
Debt service					
Principal retirement	6,715,000	6,715,000		6,715,000	
Interest and fiscal agent fees	6,298,070	6,298,070		6,298,070	
Expenditures total	13,013,070	13,013,070		13,013,070	
Excess (deficiency) of revenues over expenditures	(6,906,963)	(6,906,963)		(6,906,963)	
Other financing sources (uses)					
Operating transfers in	13,017,840	13,017,840		13,017,840	
Operating transfers out					
Operating transfers to School District					
Other financing sources (uses) total					
Excess (deficiency) of revenues and other sources over expenditures and other uses		(77,124)		(77,124)	
Fund balances (deficit), July 1	100,133				
Fund balances (deficit), June 30	323,008				

FAIRBANKS NORTH STAR BOROUGH

Exhibit V

FAIRBANKS NORTH STAR BOROUGH

Exhibit V  
(Continued)

Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings (Accumulated Deficit)  
Proprietary Fund Types  
Year Ended June 30, 2002

Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings (Accumulated Deficit)  
Proprietary Fund Types  
Year Ended June 30, 2002

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Operating revenues			
Fees	\$192,094	\$	\$192,094
Gain (loss) on land sales	130,638		130,638
Land leases	42,498		42,498
Interest on land contracts receivable	178,852		178,852
Advertising	11,980		11,980
Charges for services	6,078,221	340,810	6,420,031
Other revenues	27,071		27,071
Operating revenues total	6,662,353	340,810	7,003,163
Operating expenses			
Wages and benefits	4,023,641		4,023,641
Fuels, lubricants, and parts	336,257		336,257
Contractual services	1,120,183	31	1,120,224
Utilities	135,643		135,643
Professional services	81,438		81,438
Depreciation	3,282,389	380,841	3,663,230
Training, dues, and professional expenses	33,511	481	33,973
Repairs and maintenance	315,183	1,160	316,343
Supplies	135,067		135,067
Interest expense capital lease		62,537	62,537
Management contractor fee	128,537		128,537
Landfill closure and postclosure care costs	122,740		122,740
Intergovernmental charges	1,560,001	11,702	1,572,603
Operating expenses total	11,273,400	446,732	11,720,132
Operating income (loss)	(4,611,047)	(105,922)	(4,716,969)

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Non-operating revenues (expenses)			
Interest expense capital lease	(\$8,849)	\$	(\$8,849)
Operating grants	160,455	22	160,477
Fees from grants	175,000		175,000
Investment income	813,648		813,648
Gain (loss) on sales of fixed assets	53,638	1,333	54,971
Decline in market value of land inventory	(15,894)		(15,894)
Profit recognized on prior year sales (net of costs) resulting from land valuation	33,380		33,380
Non-operating revenues (expenses) total	1,247,386	1,354	1,248,740
Gain (loss) before operating transfers	(3,363,661)	(104,688)	(3,468,229)
Operating transfers in	3,000,330		3,000,330
Operating transfers out	(2,709)		(2,709)
Net income (loss)	(389,040)	(104,568)	(470,608)
Add depreciation on fixed assets funded by contributed capital	782,856		782,856
Retained earnings (accumulated deficit), July 1	2,991,580	60,713	3,052,303
Residual equity transfers	(150,000)		(150,000)
Retained earnings (accumulated deficit), June 30	\$3,259,406	(\$43,855)	\$3,214,551

See accompanying notes to financial statements.

(Continued)

FAIRBANKS NORTH STAR BOROUGH

Exhibit VI

Exhibit VI  
(Continued)

FAIRBANKS NORTH STAR BOROUGH

Combined Statement of Cash Flows  
Increases (Decreases) in Equity in Central Treasury Cash  
Proprietary Fund Types  
Year Ended June 30, 2002

Combined Statement of Cash Flows  
Increases (Decreases) in Equity in Central Treasury Cash  
Proprietary Fund Types  
Year Ended June 30, 2002

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Cash flows from operating activities			
Cash received from customers	\$7,164,128	\$340,810	\$7,504,938
Cash payments to suppliers for goods and services	(3,649,531)	(13,354)	(3,662,885)
Cash payments to employees for services	(3,934,541)		(3,934,541)
Net cash provided by (used for) operating activities	(619,944)	327,456	(292,488)
Cash flows from noncapital financing activities			
Operating grants received	467,005	22	468,017
Operating transfers from general fund	3,000,330		3,000,330
Operating transfers out	(2,709)		(2,709)
Residual equity transfers to general fund	(150,000)		(150,000)
Net cash provided by noncapital financing activities	3,315,616	22	3,315,638
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(1,163,468)		(1,163,468)
Capital grants received	788,756		788,756
Interest on capital lease payments	(435,623)	(236,796)	(672,419)
Acquisition of assets transferred to general fixed assets	72,078	(55,183)	16,895
Proceeds from sale of capital assets	140,631	37,374	178,005
Proceeds from loan			
Net cash used for capital and related financing activities	(596,625)	(254,605)	(851,230)
Cash flows from investing activities			
Investment income allocation from central treasury	821,773		821,773
Net increase in equity in central treasury cash	2,920,820	72,873	2,993,693
Equity in central treasury cash at beginning of year	20,503,620	520,086	21,023,706
Equity in central treasury cash at end of year	\$23,424,440	\$592,959	\$24,017,399

See accompanying notes to financial statements.

(Continued)

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Reconciliation of operating loss to net cash provided by (used for) operating activities			
Operating loss	(\$4,811,047)	(\$105,822)	(\$4,716,969)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	3,282,390	380,841	3,663,231
Interest on lease payable		52,537	52,537
Change in assets and liabilities			
Decrease in inventories	870,860		870,860
Increase in receivables	(267,397)		(267,397)
Increase in accounts payable	84,897		84,897
Increase in wages and payroll taxes	3,082		3,082
Increase in accrued annual leave	10,419		10,419
Increase in unrealized gain on land contracts	75,819		75,819
Increase in landfill closure and postclosure care liability	8,713		8,713
Adjustments total	122,740		122,740
Net cash provided by (used for) operating activities	3,991,193	433,378	4,424,481
Noncash investing, capital, and financing activities			
Transfers from other funds:			
Fixed assets (net)	\$119,796		\$119,796
Capital projects fund	\$256,854		\$256,854
Capital leases	(\$180,543)	(\$280,763)	(\$421,308)
Accrued interest payable	(\$27,894)	(\$49,511)	(\$77,405)

See accompanying notes to financial statements.

FAIRBANKS NORTH STAR BOROUGH

Notes to Financial Statements  
June 30, 2002

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fairbanks North Star Borough (the Borough) was incorporated January 1, 1984 as a Second Class Borough under the provisions of the State of Alaska Borough Act (1983), as amended. The Borough operates under a Mayor-Assembly form of government and has the following powers:

Area-wide: assessment and collection of taxes, public schools, planning and zoning, animal control, food control, hospital (not exercised), library, air pollution control, disaster, and civil defense, solid waste disposal (landfill), parks and recreation, transportation system, child care assistance, health and social services (limited), emergency communication services (enhanced 911), and housing financing (not exercised). These services are provided throughout the entire Borough.

Non-area-wide: fireworks control, emergency medical services, economic development, and debt service for solid waste transfer station bonds. These activities service the area of the Borough outside the two cities of Fairbanks and North Pole.

Service area: road construction and maintenance, fire protection, water supply, sewage disposal, and streetlights. These services are currently provided to 112 neighborhoods and regions.

Solid Waste Collection District: solid waste collection and transfer. The District services the area of the Borough outside the City of Fairbanks.

The financial statements of the Fairbanks North Star Borough have been prepared to conform to generally accepted accounting principles (GAAP) of the U.S., as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

A. THE FINANCIAL REPORTING ENTITY AND ITS COMPONENT UNIT

The basis for defining the financial reporting entity is an accountability perspective. These financial statements present the Fairbanks North Star Borough (the primary government) and its component unit. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Fairbanks North Star Borough School District (the School District) is the Borough's only component unit. The School District is reported in a separate column in the combined balance sheet to emphasize that the School District is legally separate from the Borough.

Although the School District is governed by an independently elected school board, it is included in these financial statements because it is financially accountable to the Borough in the following ways:

Any year-end fund balance surplus in excess of seven percent of the local appropriation to the School District lapses back to the Borough's general fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. THE FINANCIAL REPORTING ENTITY AND ITS COMPONENT UNIT (continued)

The Borough Assembly is responsible for approving and appropriating the amount for local support to the School District for education.

The Borough has responsibility for funding any deficits of the School District.

The Borough Assembly is responsible for the levying and collecting of taxes. The School District has no taxing authority.

The School District cannot borrow funds, but the Borough may and does issue bonds to finance school construction and renovation.

All land, buildings, and improvements other than buildings, used by the School District, are owned by the Borough and provided to the School District at no charge. Schools located on military bases are operated by the School District through School District agreements with the State and the U.S. Department of Education.

The School District is required to deposit all school money in the Borough's central treasury.

Complete financial statements of the School District can be obtained from the School District's Department of Administrative Services at 520 Fifth Avenue, Fairbanks, Alaska 99701; phone number (907) 452-2000.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Fairbanks North Star Borough are organized on the basis of funds and account groups. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting unit with a self-balancing set of accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the governmental funds because they do not directly affect net expendable available financial resources. The financial statements in this report present an overview of the three types of funds (governmental, proprietary, and fiduciary) and the two account groups used by the Borough.

Governmental Funds

General Fund - The general fund is the general operating fund of the Borough. It is used to account for all financial resources except those required to be accounted for in another fund. It receives financial support from such sources as general property taxes, intergovernmental revenues, and charges for services. Expenditures are authorized in the annual budget and include such area-wide activities as administration, parks and recreation, library, and planning and zoning.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

*Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Certain annual operating activities are conducted in this fund type, usually on a neighborhood, community, or other geographic basis. These activities include solid waste collection, emergency medical services, economic development, emergency communication services (enhanced 911), and various service area functions. Revenues for these activities are provided by local taxation, state revenues, and charges for services. Additional special revenue funds are used for multi-year, non-capital projects funded by grants from the State, federal pass-through grants, federal grants, and certain local funds.

Service areas have been established by certain communities and neighborhoods. Service areas are smaller units, within the Borough boundaries, created to provide certain services not otherwise exercised on an areawide or non-areawide basis. These services are: road maintenance and construction, fire protection, streetlights, sewage disposal, and water supply. The revenues for these services are provided by local taxation and state shared revenue. The Borough is restricted from using areawide revenues for service area expenditures. There are 112 active service areas in the Borough.

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs for the Borough's general obligation bonds. Debt service requirements are funded by the general and non-areawide funds and by state-funded reimbursements for school construction received through the general fund.

*Capital Projects Funds* - Capital projects funds are used to account for financial resources to be used for the acquisition, construction, renovation, or major maintenance of significant capital items and of facilities, other than those financed by proprietary funds.

Proprietary Funds

*Enterprise Funds* - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises; a) where the intention of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise fund activities include the transit system, Borough fleet maintenance, air quality functions, Borough lands management, operation of the Carleton Community Activity Center, and solid waste disposal (landfill).

*Internal Service Fund* - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government on a cost reimbursement basis. Acquisition and acquisition financing for Borough vehicles and equipment are accounted for in an internal service fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (continued)

Fiduciary Funds

*Expendable Trust Fund* - The expendable trust fund is used to account for the donations received and revenues earned on those donations, plus the expenditures of both those resources. Disbursements are made in accordance with the Borough Code for purposes designated for the Noel Wien Library by the trust agreement of the donor.

*Agency Funds* - Agency funds are used to account for assets held as an agent for other organizations (pass-through grants) and other governments (taxes). Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

General Fixed Assets Account Group

The general fixed assets account group is used to record all fixed assets of the Borough not accounted for in the proprietary funds.

General Long-Term Debt Account Group

The general long-term debt account group is used to account for all unamortized long-term indebtedness not accounted for in the proprietary funds.

School District

The School District component unit is presented in its own column in the combined balance sheet and in its own statement of activities. The following School District fund types are consolidated and presented in total: general fund, special revenue funds, capital projects funds, and internal service fund. The School District's fiduciary fund is not included in either statement.

During the fiscal year ended June 30, 2002, the School District implemented GASB Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34), as amended by Statement No. 37. GASB 34 creates new basic financial statements, including district-wide statements prepared on the accrual basis of accounting.

The School District's statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Items not properly included among program revenues are reported instead as general revenues.

Complete financial statements of the School District can be obtained from the School District. See Note 1A.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All governmental and fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues are recorded in the accounting period in which they become susceptible in accrual, that is, when they become measurable and available as net current assets. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Property tax revenues are accrued when they are levied and available to finance expenditures of the current period. Property taxes are considered available if they are collected within 60 days after year-end. Hotel-motel room taxes are recognized on the modified accrual basis and delinquent sales tax revenues are recognized when collected. Certain grant revenues are dependent upon expenditures or other criteria, and revenues from these grants are recognized when the expenditures are made, or the criteria are met; revenues from other grants are recognized on the cash basis. Charges for services and miscellaneous revenues are recognized on the cash basis. Interest income is accrued when earned. For investments with maturities greater than one year, unrealized gains and losses are recognized at the end of the reporting period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (that is, net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, except for revenue from land disposals, which is recognized on the installment method. Expenses are recognized when they are incurred, except for estimated landfill closure and postclosure care costs which are recognized based on landfill usage.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING (continued)

The School District component unit's district-wide information is reported using the economic resources measurement focus and the accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the district-wide information. When both restricted and unrestricted resources are available for use, the School District's policy is to use restricted resources first, then unrestricted resources as they are needed.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that proprietary activities follow all GASB pronouncements. It also allows for the option of either following Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements, or following all FASB pronouncements that are not in conflict with GASB pronouncements. The Borough and School District have both elected to follow FASB pronouncements issued on or before November 30, 1989 that are not in conflict with GASB pronouncements.

D. BUDGETS, BUDGETARY ACCOUNTING, AND ENCUMBRANCES

The budgetary data presented in the financial statements are established by the following procedures:

- 1) On or before the first Thursday following April 1, the Mayor submits to the Borough Assembly a proposed operating budget for the following fiscal year. The annual operating budget includes proposed expenditures and the means of financing them. In accordance with Alaska Statute 14.14.060(c) and Fairbanks North Star Borough Code of Ordinances (FNBSB Code) 3.03.010A, the School District's Board of Education is required to adopt and submit its annual budget to the Borough Assembly by April 1 for approval of the amount of local support for education.
- 2) At least one public hearing is held.
- 3) By May 31, the budget is legally enacted through the passage of an appropriating ordinance, including the local support share of School District funding.
- 4) The Mayor is authorized to transfer budgeted amounts within a department or within a service area. Transfers between departments, between service areas, or between funds require Borough Assembly approval.

Formal budgetary integration is employed as a management control device, during the year, for the general fund; certain special revenue funds; enhanced 911, non-area-wide, solid waste collection district, and service areas; debt service fund; enterprise funds; and internal service fund. In addition, formal budgetary integration is employed as a management control device in the remaining special revenue funds and all the capital projects funds for the life of the related grants or projects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BUDGETS, BUDGETARY ACCOUNTING, AND ENCUMBRANCES (continued)

Annual budgets are legally adopted for the general, certain special revenue (enhanced 911, non-areawide, solid waste collection district, and service areas), and debt service funds. Differences in accounting for encumbrances, as described below, exist between the basis of accounting used for budgetary purposes and that used for reporting in accordance with generally accepted accounting principles. The remaining special revenue funds and all the capital projects funds are controlled through project budgets. Adopted project budgets provide authorization to complete projects that extend beyond one fiscal year. Multi-fiscal year projects are controlled by comparing project-to-date expenditures with project budgets.

Annual budgets are also adopted for the enterprise funds and the internal service fund. However, generally accepted accounting principles do not require the adoption of budgets for enterprise funds and internal service funds, and budgetary comparisons are not included for these funds because the measurement focus is upon determination of net income and financial position.

Numerous supplemental appropriations to the annual operating budget were adopted during the year. See Note 2A.

Appropriations are authorized by ordinance at the department level for the general, enhanced 911 special revenue, non-areawide special revenue, solid waste collection district special revenue, enterprise funds, and internal service fund; at the service area level in the service areas special revenue fund; and at the project level for the capital projects and the remaining special revenue funds. All other appropriations are at the fund level. Expenditures may not exceed these appropriations which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed, object-level budgets.

All unencumbered appropriations for operations lapse at the end of the fiscal year. Appropriations for those special revenue and capital projects funds with project budgets do not lapse until the purpose of the appropriation has been accomplished. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized as an extension of formal budgetary integration in the general fund, special revenue funds, and capital projects funds. For budgetary purposes, annual appropriations lapse at year-end, except for that portion related to unencumbered amounts. Outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Encumbrances outstanding at year-end are carried forward to the new fiscal year. Such encumbrances constitute the equivalent of expenditures in the current fiscal year for budgetary purposes and accordingly, the accompanying financial statements present comparisons of actual results to the annual budgets of the governmental funds on the budgetary basis of accounting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. EQUITY IN CENTRAL TREASURY CASH AND INVESTMENTS

Cash balances of all Borough funds and cash of the School District component unit are combined and invested to maximize investment income while minimizing risk of loss of capital. Money market investments held by the central treasury with maturities beyond one year of the Borough's acquisition are stated at fair value. All other central treasury investments are valued at amortized cost. See Note 3.

Investment income is allocated to the following funds and accounts based upon their cumulative, month-and cash equity balances: enhanced 911 special revenue fund, service areas special revenue fund, Alaska Regional Development Organization special revenue grant, health care contingency reserve special revenue project, Alaska Department of Education grants to the Borough and to the School District, federal grants in all funds and of the School District, capital project to redo the Mary Shah Tennis Courts funded by a donation, nonexpendable trust fund and capital projects funded by the trust fund, the enterprise funds, and pupil activities agency fund of the School District. For bond-funded projects authorized prior to September 1993, investment income is allocated to pay for the cost of debt service on those projects. For bond-funded projects authorized since September 1993, investment income is allocated back to the respective project. The balance of investment income is allocated to the general fund.

F. STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows, all the enterprise funds and the internal service fund consider their Equity in Central Treasury Cash to be cash equity.

Effective July 1, 2000, with the establishment of the solid waste disposal enterprise fund, assets and liabilities were moved to the new fund as part of the residual equity transfers. For purposes of the fund's statement of cash flows, these asset and liability amounts are considered the beginning balances for the subsection of the cash flow statement entitled "change in assets and liabilities".

G. TAXES RECEIVABLE

Property tax revenues are accrued on July 1 when they become available to finance expenditures of the current period.

H. INVENTORIES

Inventories of the transit enterprise fund are stated at cost. An average cost method is used for parts and the first-in, first-out method is used for fuel. Inventories of the School District are valued at cost, using the weighted average cost method, except for School District inventories of United States Department of Agriculture food commodities. Food commodities are valued at the allocated cost provided by the State of Alaska, which approximates fair market value. All inventories are recorded as expenditures when used (consumption method).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)  
I. LAND INVENTORIES

Entitlement land received by the Borough under the State of Alaska Municipal Land Act is recorded as contributed capital in the land enterprise fund. The land donated by the State is valued at \$1 per acre when patented until such time as its estimated fair value is readily determinable. When the fair market value of the land can be determined, it is adjusted back to the date of donation and that portion exceeding \$1 per acre is added to contributed capital.

All land inventory of the land enterprise fund is valued at the lower of cost (specific identification method) or market. Cost includes the donated value described above, plus development expenses recorded at cost.

Lands that are ready for sale or being developed for sale are recorded as a current asset, inventory - land held for sale. Lands that are not currently for sale, whether they are being withheld from sale, leased or otherwise managed by the Land Management department, are recorded as a long-term asset, Land Inventory - Long-Term.

Lands to be retained for public purposes are transferred to the general fixed assets account group.

J. OTHER ASSETS

For the School District, which has adopted GASB 34 (see Note 18), contributions in excess of the amount required contribution to the Alaska Public Employees Retirement System (PERS) in past years resulted in a negative net pension obligation (NPO) which is recorded in the combined balance sheet as an Other Asset. PERS is a defined benefit, agent, multiple employer public employee retirement system established by the State of Alaska to provide pension, postemployment healthcare, death, and disability benefits to eligible employees (see Note 8).

K. FIXED ASSETS

General Fixed Assets Account Group - Acquisitions of fixed assets, other than in the proprietary funds, are recorded as expenditures in the appropriate purchasing fund and capitalized in the general fixed assets account group. These assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair value on the date donated. Due to the volume and turnover of library materials, they are valued at estimated replacement cost using industry trade information. Public domain ("infrastructure") general fixed assets, consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, flood control systems, and street lighting systems, have not been capitalized, as these assets are immovable and of value only to the government. No depreciation is provided for assets recorded in the general fixed assets account group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. FIXED ASSETS (continued)

Proprietary Fund Types - Property, buildings, and equipment held by the proprietary funds are recorded at cost, except for assets which have been contributed to the Borough. The contributed assets are stated at estimated fair market value at the date of contribution. Depreciation of all depreciable fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation of fixed assets acquired by grants, entitlements, and shared revenue externally restricted for capital acquisitions is closed to the appropriate contributed capital account, except for the Internal Service Fund. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings	25-30 years
Improvements	5-25 years
Equipment	3-15 years

School District Component Unit - The fixed assets of the School District consist only of furniture, equipment, and certain intangible assets. The Borough owns and provides to the School District all land, buildings, and improvements other than buildings, except for the on-base schools. Most on-base land, buildings, and improvements other than buildings are provided to the School District by the U.S. government through the State of Alaska for Fort Wainwright Army Post and Eielson Air Force Base. Ownership of the on-base schools is being individually transferred to the Borough as new on-base schools are constructed, or as existing schools are renovated, to Borough standards. School District equipment is valued at cost or estimated historical cost when original cost is not available. Donated equipment is valued at its estimated fair market value on the date received. In accordance with GASB 34 (see Note 18), the School District has recorded straight-line depreciation and amortization over the following estimated useful lives:

Furniture and equipment	8-20 years
Intangible assets	5-10 years

L. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables result from individual funds' overdrafts of pooled cash in the central treasury.

M. ACCRUED ANNUAL LEAVE

For governmental and proprietary funds, and for the School District, annual leave is accrued as earned. The Borough's accrued annual leave liabilities are reported as fund liabilities because the Borough budgets for those as they are incurred, even though those liabilities may not be liquidated until some future budget period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. DEFERRED REVENUES

Deferred revenues arise when resources are received before the Borough or School District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the Borough or School District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

O. ADVANCE TAX PAYMENTS

Taxes are levied by June 15 but are not accrued until July 1 of the succeeding fiscal year. Taxes collected prior to July 1 are recorded as advance tax payments.

P. ENVIRONMENTAL LIABILITIES

Environmental liabilities are recorded when assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the commitment of the Borough to a formal plan of action.

Q. LONG-TERM OBLIGATIONS

Governmental Fund Types and the General Long-Term Debt Account Group - In the governmental funds, accrued liabilities are generally reported as fund liabilities.

General obligation bonds are reported at face value in the general long-term debt account group. Other liabilities expected to be financed from future general governmental revenues are also accounted for in the general long-term debt account group. These include contracts payable and sewer assessments payable.

Payments to retire general obligation bonds are accounted for in the debt service fund. Payments on the other long-term obligations are recorded in the appropriate general or special revenue fund.

Bond proceeds are reported as an other financing source net of premium or discount, if any. Issuance costs are recognized during the current period as expenditures of the bond projects capital projects fund.

Proprietary Fund Types - All liabilities, and the payments thereon, that are expected to be repaid from the resources of the proprietary funds are reported in those funds.

School District Component Unit - The long-term obligations of the School District are the uncompensated absences and accrued self-insurance losses. Both are reported as liabilities in the School District column of the combined balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. UNREALIZED GAIN ON LAND CONTRACTS

In accordance with Financial Accounting Standards Board Statement No. 66, retail land sales of the land enterprise fund are accounted for using the installment method because the extended length of the collection period casts doubt on the collectibility of the land contracts receivable. The unrealized gain on land contracts represents that portion of the gross profit that has not yet been recovered through collections of the receivables.

S. FUND EQUITY

Contributed capital is recorded in proprietary funds that have received capital grants or entitlements, or contributions from other funds.

Reserved fund balances indicate that a portion of fund equity is not available for expenditure, as in the case of reserves for encumbrances, or a portion of fund equity is legally segregated for a specific future use.

Designated fund balances indicate tentative plans for future use. Fund balances designated for subsequent year's expenditures represent commitments for expenditures in excess of anticipated revenues for the following year. Undesignated fund balances indicate that a portion of fund equity is available for budgeting in future periods.

See Note 18 for information about the equity of the School District.

T. INTERGOVERNMENTAL GRANT REVENUES

State entitlements and shared revenues are recorded as revenue in the period of allocation. Certain other grant revenues are dependent upon expenditures or other criteria, and revenues from these grants are recognized when the expenditures are made, or the criteria are met. Revenues from all other grants are recognized on the cash basis.

U. INTERFUND AND INTRA-ENTITY TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the appropriate fund or component unit. Transactions that constitute reimbursements to a fund or component unit for expenditures/expenses initially made from it that are properly applicable to another fund or component unit, are recorded as expenditures/expenses in the reimbursing fund or component unit and as reduction of expenditures/expenses in the fund or component unit that is reimbursed.

Nonrecuring or nonroutine transfers of equity between funds or the component unit are accounted for as residual equity transfers. All other interfund and intra-entity transactions are reported as operating transfers.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

D. TAXES LEVIED IN EXCESS OF MAXIMUM TAX COMPUTATION

Three service areas levied a total of \$108 in excess of the maximum tax computation. (See Note 4.)

E. SCHOOL DISTRICT FUND BALANCE LIMIT

In accordance with Alaska Statutes 14.14.000(c) and FNSB 3.03.040, the Assembly annually appropriates the amount of local support for school purposes, while FNSB 3.01.060 E limits the amount of the School District's unreserved local appropriation fund balance. Unreserved local appropriation fund balance not exceeding seven percent may carry over to the next fiscal year. This carry-over fund balance is not required to show as revenues for the following fiscal year's budget. At June 30, 2002, unreserved fund balance originating from all revenue sources, including local support, exceeded seven percent of fiscal year 2001-02 expenditures and other financing uses. However, unreserved fund balance includes a \$3,411,928 designation for fiscal year 2002-03 expenditures. (See Note 18.) This amount adequately covers the excess over the seven percent limit.

3. DEPOSITS AND INVESTMENTS

Equity in central treasury cash and investments includes all Borough funds and all funds of the School District.

**Deposits** - The Borough contracted its banking services on June 23, 2001, with Wells Fargo Bank Alaska N.A. (WFB). Those services are paid for with a restricted, non-interest bearing compensating balance of \$1,060,080 that is recorded as an other asset in the general fund. The contract requires that WFB sweep the Borough's central treasury accounts daily and invest all available funds in an overnight investment. The carrying amount of the Borough's deposits on June 30, 2002 was \$1,422,047 and the corresponding bank balance was \$47,331. The daily bank balance is fully collateralized by a combination of federal depositary insurance (FDIC) and securities held in the Borough's name by the Borough's agent, Alaska USA Trust Company. Both the compensating balance and the balance swept in accordance with the overnight investment agreement are collateralized by the securities held in the Borough's name at Alaska USA Trust Company.

**Investments** - FNSB Code 3.04 (Code) describes the objectives, policies, and procedures for the investment of Borough funds and applies to the investment of all Borough monies, unless otherwise provided expressly by ordinance. The Code also specifies the following authorized investments and maximum maturity schedule: 1) U.S. Treasuries - 5 years; 2) other obligations guaranteed by the U.S. Government or its agencies and instrumentalities - 5 years; 3) repurchase agreements of securities specified in 1) and 2) above, subject to qualifications of the financial institution; and specified margin requirements - 5 years; 4) collateralized certificates of deposits and other deposits - 5 years; 5) bank deposits insured by FDIC, NCUA, or FSLIC - 5 years; 6) bonds or notes of any state or political subdivision thereof, rated A or higher - 5 years; 7) prime commercial paper graded A1/P1 or higher - 270 days; 8) prime bankers acceptances of the fifty largest international banks - 180 days; 9) money market mutual funds consisting entirely of instruments specified in 1), 2), and 3) above -

3. DEPOSITS AND INVESTMENTS (continued)

maturity date not applicable; and 10) the Alaska Municipal League Investment Pool, Inc., created in accordance with Alaska Statute 37.23.020. All Borough investments must be collateralized in accordance with the Code. In addition, the Borough has developed contracts for the investment and collateralization of funds in these various authorized instruments. During the fiscal year ended June 30, 2002, the Borough invested in U.S. government securities and agencies, prime commercial paper, Hamilton Money Fund, Fidelity Treasury Money Market Fund, the Alaska Municipal League Investment Pool, and the overnight investment with WFB.

The Borough's investments have been listed by type of instrument below. Governmental Accounting Standards Board (GASB) Statement Number 3 establishes categories as an indication of the level of risk involved in the investment. The government securities money market funds and the external investment pool are not required to be categorized since the investments are not evidenced by securities that exist in physical or book entry form. All of the Borough's remaining investments are in the category of least risk and include investments that are insured or registered in the Borough's name, or are held by the Borough or its agent in the Borough's name.

	Principal Invested	Fair Value
<b>Categorized Investments:</b>		
Overnight Investment	\$ 2,347,800	\$ 2,347,800
U.S. securities and agencies	22,184,163	22,384,219
Commercial paper	14,783,171	14,783,171
Uncategorized Investments:	39,325,134	39,515,190
Government securities money market funds	44,537,888	44,537,888
External investment pool	29,099,177	29,099,177
<b>Total Investments</b>	<b>\$112,862,289</b>	<b>\$113,192,355</b>

The methods used to determine the fair value of the aforementioned investments are described in the following paragraphs.

The overnight investment is a fully collateralized investment at WFB. It is a highly liquid, short-term investment where the principal equals fair value.

The Borough's custodial bank, Bank of New York, BNY Western Trust provides fair value information on a monthly basis for each money market investment held in the Borough's name. The Borough utilizes the fair value information provided by its custodial bank for financial reporting purposes. GASB Statement Number 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, states that money market investments purchased with a remaining maturity of one year or less may be reported at amortized cost. At June 30, 2002, the Borough had four investments that met this criteria and amortized cost was used for the reporting of these investments.

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

3. DEPOSITS AND INVESTMENTS (continued)

The Borough invests in two money market funds, both registered with the Securities and Exchange Commission (SEC). These funds operate in accordance with SEC Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. These conditions include restrictions on the types of investments held, restrictions on the term-to-maturity of individual investments and the dollar-weighted average of the portfolio, requirements for portfolio diversification, requirements for divestiture considerations in the event of security downgrades and defaults, and required actions if the market value of the portfolio deviates from amortized cost by a specified amount. Both of these funds invest only in U.S. Treasury bills, notes, and bonds, and repurchase agreements backed by those obligations. At June 30, 2002, the weighted average portfolio maturity was 44 days. Accordingly, these conditions have been met and the investments were reported at amortized cost.

The Alaska Municipal League Investment Pool (AMLIP) is considered to be an external investment pool as defined by GASB Statement 31. AMLIP is not SEC-registered, but is a 2a7-like pool, operating in a manner consistent with that rule. Regulatory oversight of the pool is established by Alaska Statute 37.23. The law sets forth numerous requirements regarding authorized investments and reporting. The pool is incorporated in the State of Alaska as a nonprofit corporation and reports to a board of directors. Alaska Statute 37.23.050 requires the retention of an investment manager. The manager is required to produce monthly disclosure statements on the pool. The pool also has retained an investment adviser who monitors the performance of the investment manager to ensure compliance with investment policies. All participation in the pool is voluntary. The pool must maintain a dollar-weighted average maturity of 90 days or less, and only purchase instruments having remaining maturities of 397 days or less. On a monthly basis, the investments in the pool are reviewed for fair value by an independent pricing service. As of June 30, 2002 the fair value of the investments in the pool approximates the amortized cost at which the investments were reported. The fair value of the Borough's investments in AMLIP is the same as the value of its pool units.

4. PROPERTY AND OTHER TAXES

During the preceding fiscal year, property was assessed as of January 1 and taxes were levied by June 15. During the current fiscal year, these taxes attached on property as an enforceable lien on July 1 and were payable in two installments on September 1 and November 1. Property tax revenues were accrued on July 1 when they became available to finance expenditures of the current fiscal year.

Alaska Statute 29.45.050 limits the amount of taxes levied to three percent of the assessed value of the property within the Borough. Furthermore, no Borough, or combination of municipalities occupying the same geographic area, may levy taxes which will result in tax revenues from all sources exceeding \$1,500 a year for each person residing in the Borough or which exceed the product of 225 percent of the average per capita tax and true value in the state multiplied by the number of residents of the Borough. However, there is no taxing limitation for debt service per Alaska Statute 29.45.100.

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

4. PROPERTY AND OTHER TAXES (continued)

FNSB Code 3.08.145 (Code) limits the Borough's taxing authority. The total amount of tax that can be levied during a year cannot exceed the total amount levied for the preceding year (see Note 2D). For computation purposes, the preceding year's tax levy is adjusted for inflation, new construction, additional voter-approved services, new judgments against the Borough, and special appropriations necessary on an emergency basis. Furthermore, the limitation does not apply to any appropriation for payments on bonds. The Code requires inclusion of both property tax and other tax revenues within the tax cap computation and requires publication of tax cap computations by May 31 of each year. In October of 2002, the voters reconfirmed the Code provision limiting the Borough's taxing authority.

5. DEEDS OF TRUST AND CONTRACTS RECEIVABLE

Deeds of trust and contracts receivable have been recorded for installment sales of Borough land.

**Deeds of Trust Receivable** - All real estate sales of the Borough using secured indebtedness are sold as deeds of trust. In addition, the Borough gave prior contract buyers an option to convert to deeds of trust. Annual installments are due over a period of ten years from the time of conversion or sale with a stated interest rate of 7.25 percent to 10.00 percent and weighted average interest rate of 9.27 percent. The annual installments of principal due for the next five years on contracts converted to deeds of trust and parcels originally sold as deeds of trust are:

Year Ending June 30	Annual Installments
2003	\$265,980
2004	250,091
2005	251,971
2006	250,066
2007	243,990

**Contracts Receivable** - Proceeds from certain land sales made in prior years are receivable in annual installments over periods of up to ten years plus interest at 10.00 percent per annum, with a weighted average interest rate of 10.00 percent. The annual installments of principal due for the next five years are:

Year Ending June 30	Annual Installments
2003	\$719
2004	538
2005	594
2006	596
2007	-

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

5. DEEDS OF TRUST AND CONTRACTS RECEIVABLE (continued)

No allowances for uncollectible receivables are recorded as the Borough does not transfer title of the land to contract buyers until the contract is paid in full and the revenue related to all land sale receivables is only recognized on the installment method. As of June 30, 2002, the total receivable for delinquent accounts amounted to \$237,450.

6. LAND INVENTORIES

Under provisions of the State of Alaska Municipal Land Act, the Fairbanks North Star Borough was granted an entitlement of 112,000 acres. The Borough has received title (patent or tentative approval) to about 80 percent of those acres. Of this acreage, about nine percent has been sold into private ownership. Almost four percent has been dedicated for recreation, public use or other activities. A small portion is being leased. The remaining acreage is recorded as land inventory, current and long-term, in the land enterprise fund.

Beginning in fiscal year 2001-02, land inventory is segregated into current and long-term portions. Current inventory includes parcels and developments offered for sale over-the-counter or to be included in the Borough's annual land auction and subdivisions currently being developed for sale. Long-term land inventory consists of undeveloped acreage, currently leased land that may be sold in the future, and other property not currently for sale, but over which land management retains control.

7. FIXED ASSETS

General Fixed Assets - A summary of the changes in the general fixed assets account group of the Borough follows:

	June 30, 2001	Additions/ Transfers In	Deletions/ Transfers Out	June 30, 2002
	Balance			Balance
Land	\$ 9,856,290	\$ 5,866	\$	\$ 9,864,156
Buildings	200,954,113	3,861,771	1,051,844	293,754,039
Improvements other than buildings	12,701,512	651,631	1,833,674	13,351,443
Furniture and equipment	17,085,221	1,112,693		16,264,240
Library materials	17,328,430	2,278,082		19,600,512
Construction work in progress	115,321,715	7,562,146	4,312,257	118,571,604
Borough total	\$463,250,281	\$15,623,187	\$7,307,714	\$471,516,694

Assets purchased with certain grant funds are recorded in the general fixed assets account group. However, federal and state governments have a reversionary interest in the assets.

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

7. FIXED ASSETS (continued)

School District Component Unit Capital Assets - Effective July 1, 2001, the School District adjusted its fixed asset balance for items not previously capitalized. These items consisted primarily of 1% for Air places installed in various new and refurbished schools. A summary of changes in fixed assets for the School District at June 30, 2002 follows:

	June 30, 2001	Adjustments to July 1, 2001	Additional	June 30, 2002
	Balance	Balance	Deletions	Balance
Furniture and equipment	\$8,597,851	\$929,660	\$457,010	\$9,460,672
Intangible assets	95,121		413,000	139,421
Total	\$8,693,072	\$929,660	\$498,310	\$9,606,003
Less accumulated depreciation for: Furniture and equipment	(5,361,467)	(66,830)	(747,675)	(407,107)
Intangible assets	(13,320)		(12,260)	(15,650)
Total accumulated depreciation	(5,374,846)	(66,830)	(760,195)	(487,102)
Capital assets, net	\$3,318,226	\$862,830	(\$281,845)	\$3,051,380

8. INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2002, are as follows:

Funds	Interfund Receivables	Interfund Payables
General fund	\$386,761	\$
Special revenue funds:		
Service areas		21,000
Federal pass-through grants		261,090
Federal grants		2,366
Capital projects funds:		
Federal grants		102,285
Total	\$386,761	\$388,761

9. RETIREMENT PLANS

As of June 30, 2002, substantially all employees of the Borough and of the School District component unit are either members of the Alaska Public Employees' Retirement System (PERS) or the Alaska Teachers' Retirement System (TRS). Stand-alone financial statements for either plan can be obtained by writing to the Alaska Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0203, or by calling (907) 465-4460. Effective July 1, 1993,

B. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

amount outside the corridor is set aside and applied to the employer contribution rate. In addition, valuation assets cannot be outside the range of 80 percent to 120 percent of the market value of assets. Additional actuarial assumptions are as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Investment return	8.25%	same	8.25%	same
Health cost trend - ultimate rate	n/a	4.50%	n/a	4.50%
Projected salary increases:				
Inflation	4.00%	n/a	4.00%	n/a
Productivity and merit	1.50%	n/a	1.50%	n/a
Total inflation rate	4.00%	same	4.00%	same
Target funding ratio	102%	same	102%	same

The components of the Borough's and School District's annual pension cost and net pension obligation (NPO) to PERS for the year ended June 30, 2002 were as follows:

	Borough		School District	
	Pension	Postemployment Healthcare	Pension	Postemployment Healthcare
Annual required contribution	\$ 554,435	\$ 224,768	\$ 779,203	\$ 779,203
Interest on NPO	(87,657)	(27,428)	(95,085)	(95,085)
Adjustment to annual required contribution	72,491	28,388	191,879	191,879
Annual pension cost	539,269	225,728	785,997	785,997
Contributions made	554,359	224,742	779,111	779,111
Increase in NPO	\$ 14,810	\$ 1,986	\$ 106,886	\$ 106,886
NPO (asset), end of year	(\$ 832,970)	(\$ 112,100)	(\$ 1,155,870)	(\$ 1,155,870)
School District				
Annual required contribution	\$ 1,205,876	\$ 488,853	\$ 1,694,729	\$ 1,694,729
Interest on NPO	(56,908)	(23,070)	(79,978)	(79,978)
Adjustment to annual required contribution	60,974	24,719	85,693	85,693
Annual pension cost	1,209,942	490,502	1,700,444	1,700,444
Contributions made	1,295,890	488,858	1,694,749	1,694,749
Increase in NPO	\$ 14,052	\$ 1,644	\$ 6,695	\$ 6,695
NPO (asset), end of year	(\$ 799,638)	(\$ 263,104)	(\$ 962,743)	(\$ 962,743)

9. RETIREMENT PLANS (continued)

the Borough and the School District participate in the PERS under separate agreements. Prior to that date, they participated under a joint agreement. Employer contributions are actuarially determined and have been paid or accrued by both the Borough and the School District.

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Alaska Public Employees' Retirement System (PERS) is a defined benefit, agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees. Postemployment healthcare benefits are provided to retirees without cost for all employees first hired before July 1, 1986, and employees who are disabled or age sixty-five or older, regardless of initial hire dates. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Employee participation in the PERS is mandatory for permanent employees scheduled to work at least 15 hours a week. There is no optional participation for other employees.

Funding Policy

Members are required to contribute 7.50 percent of their eligible compensation (usually equal to gross wages) and all other employees contribute 6.75 percent. The PERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the funds necessary to meet all expected future obligations to pay both pension and postemployment healthcare benefits to participants when due. The Borough's mandatory rate for 2002 was 5.04 percent (3.59 percent for pension, 1.45 percent for postemployment healthcare). The School District's rate was 7.88 percent (5.59 percent for pension, 2.27 percent for postemployment healthcare).

Annual Pension Cost and Net Pension Obligation (Asset)

Actuarial valuations are generally performed annually, as of June 30 of each year. The actuarial methods and significant actuarial assumptions used to determine annual required contributions for pension and postemployment healthcare for the current year were those listed in the actuarial valuation as of June 30, 1999.

Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. Under this method, each participant's total pension is projected to retirement with salary increases broken down into units, each associated with a year of past or future service, the objective being that each unit is funded in the year for which it is credited and accrued. The PERS uses a level dollar open method to amortize the unfunded liability and funding surpluses over a rolling twenty-five year period.

A smooth market method is used for asset valuation, whereby no gain or loss is recognized if the expected actuarial value of assets is within a five percent corridor of the market value of assets. Any

9. RETIREMENT PLANS (continued)

A. ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Three-Year Trend Information

Annual pension cost (APC), percentage of APC contributed, and NPO information as of June 30, 2002, 2001, and 2000 follows:

Borough	Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)	
				2000	2001
Borough	2000	\$497,820	100%	(\$841,211)	
	2001	649,711	99	(637,871)	
	2002	559,269	99	(832,070)	
Post-employment healthcare benefits	2000	185,468	100	(318,016)	
	2001	259,134	99	(314,685)	
	2002	226,728	99	(312,700)	
School District Pension benefits	2000	658,630	100	(707,340)	
	2001	1,191,110	100	(704,691)	
	2002	1,209,942	100	(700,639)	
Post-employment healthcare benefits	2000	357,299	100	(285,803)	
	2001	475,032	100	(284,747)	
	2002	490,502	100	(263,104)	

B. ALASKA TEACHERS' RETIREMENT SYSTEM

Plan Description

The Alaska Teachers' Retirement System (TRS) is a defined benefit, cost-sharing, multiple-employer retirement system created and administered by the State of Alaska (State) to provide pension, post-employment healthcare, death and disability benefits for eligible employees. Post-employment healthcare benefits are provided to retirees without cost for all employees first hired before July 1, 1990, and employees who are disabled or age sixty-five or older, regardless of initial hire date. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. Membership in the TRS is compulsory for each certificated employee scheduled to work at least 17.5 hours a week in positions that require teaching certificates as a condition of employment.

9. RETIREMENT PLANS (continued)

B. ALASKA TEACHERS' RETIREMENT SYSTEM (continued)

Funding Policy

Employee contribution rates are 8.65 percent of base salary as required by State statute. The TRS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the funds necessary to meet all expected future obligations to pay both pension and post-employment healthcare benefits to participants when due.

During the year ended June 30, 2002, the required employer contribution rate was 11.00 percent. The amounts contributed to TRS by the School District during the years ended June 30, 2002, 2001, and 2000 were \$8,283,151, \$6,702,137, and \$8,757,448, respectively, equal to the required employer contributions for each year.

10. OPERATING LEASES

The Fairbanks North Star Borough is obligated under certain site and equipment leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations; and therefore, the results of the lease agreements are not reflected in the Borough's account groups. Operating lease expenditures for the year ended June 30, 2002 were \$127,519.

The Borough has several significant operating leases:

- Two school sites, including the land on which West Valley High School is located. In fiscal year 1905-06, the Borough paid a one-time lease payment to the University of Alaska for an extension of the West Valley lease to the year 2043.
- Chena Lakes Recreation Area. Fifty-year lease expires in 2034. Payment is made through ongoing operation and management for park and recreation purposes.
- biathlon range and certain ski trails at the Birch Hill Recreation Area. Long-term lease expires in January 2003. Extension negotiations are in progress. Payment is made through trail construction and ongoing maintenance for public use.

There are no other operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002.

11. CAPITAL LEASES

The Fairbanks North Star Borough has entered into a master lease agreement as lessee for financing the acquisition of vehicles and equipment. The leases from this agreement qualify as capital leases for accounting purposes. The leased assets and their related obligations are all accounted for in the proprietary funds. Assets under these capital leases totaled \$1,645,845 and accumulated depreciation on those assets totaled \$238,159. The future minimum lease payments under the leases, together with the net present value of the minimum lease payments as of June 30, 2002, are as follows:

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

11. CAPITAL LEASES (continued)

Year Ending	Proprietary Funds
June 30, 2003	\$ 374,364
2004	374,364
2005	369,639
2006	175,708
2007	89,451
Total minimum lease payments	1,353,566
Less: Amount representing interest	(119,138)
Present value of minimum lease payments	\$1,234,428

12. LONG-TERM DEBT AND SUBSEQUENT EVENTS

At June 30, 2002, all long-term capital lease debt of the Borough was recorded in the proprietary funds. All long-term debt of the Borough's enterprise proprietary funds was recorded in those enterprise funds. All other long-term debt of the Borough was recorded in its general long-term debt account group.

General Long-Term Debt - The long-term debt in the Borough's account group at June 30, 2002, is comprised of the following individual issues:

General obligation bonds:	
\$42,615,000 1993 Refunding Series S bonds due in annual installments of \$2,837,000 to \$4,795,000 through March 1, 2008 at 5.1 to 5.5% interest.	\$ 23,165,000
\$2,000,000 1984 Series T solid waste transfer station bonds due in annual installments of \$220,000 to \$245,000 through April 1, 2004 at 5.2 to 5.4% interest	475,000
\$16,320,000 1996 Series U school facilities bonds due in annual installments of \$575,000 to \$1,350,000 through November 1, 2016 at 5.0 to 8.0% interest	13,725,000
\$35,250,000 1997 Series A school facilities and library bonds due in annual installments of \$1,100,000 to \$2,800,000 through November 1, 2017 at 5.0 to 6.5% interest.	31,350,000
\$26,210,000 1999 Series B school facilities bonds due in annual installments of \$860,000 to \$1,900,000 through April 1, 2019 at 4.00 to 6.25% interest.	23,800,000
\$9,000,000 2000 Series C school facilities bonds due in annual installments of \$90,000 to \$710,000 through December 1, 2020 at 4.50 to 7.50% interest	8,940,000

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

12. LONG-TERM DEBT AND SUBSEQUENT EVENTS (continued)

General obligation bonds (continued):

\$9,050,000 2001 Series D school facilities bonds due in annual installments of \$275,000 to \$695,000 through February 1, 2021 at 4.125 to 7.125% interest.	\$ 9,775,000
	119,230,000
	\$ 129,005,000

Other long-term debt:

Sewer assessments payable	
\$48,646 of sewer assessments due in annual installments through January 15, 2021 at 5.0% interest.	21,899

Long-term contracts payable

\$1,135,493 of twenty-five (25) office and computer equipment contracts due in monthly and annual installments through June 2007 at 0.81 to 19.18% interest.	616,029
	669,928
	\$1,085,957

The following is a summary of changes in general long-term debt for the year ended June 30, 2002:

	General Obligation Bonds	Long-Term Debt	Other	Total
Payable at July 1, 2001	\$117,005,000	\$424,608	\$117,429,608	\$117,429,608
New debt		436,278	436,278	436,278
Debt retired	(6,775,000)	(8)	(6,775,008)	(6,775,008)
Sewer assessments paid		(1,213)	(1,213)	(1,213)
Contracts payable paid		(189,738)	(189,738)	(189,738)
Payable at June 30, 2002	\$110,230,000	\$ 559,928	\$110,889,928	\$110,889,928

The annual requirements to amortize general long-term debt outstanding as of June 30, 2002, including interest payments of \$46,045,748, are as follows:

Year Ending	General Obligation Bonds	Sewer Assessments Payable	Contracts Payable	Total
June 30, 2003	\$ 13,126,306	\$ 2,309	\$244,824	\$ 13,373,439
2004	13,215,701	2,248	208,860	13,426,809
2005	13,013,441	2,187	154,403	13,170,031
2006	13,090,901	2,127	93,275	13,186,303
2007	10,892,825	2,068	40,085	10,934,978
2008-2012	41,821,575	9,418	2,280	41,833,274
2013-2017	38,590,285	7,902		38,598,187
2018-2021	12,759,599	4,058		12,763,657
	\$156,169,623	\$37,326	\$743,727	\$160,950,676

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

12. LONG-TERM DEBT AND SUBSEQUENT EVENTS (continued)

from the date of the first loan drawdown. In May 1999, repayment is due in annual installments beginning one year after the final loan drawdown of construction costs for each call. The final loan drawdown for call 1 occurred December 31, 2001; the initial repayment for call 1 is due January 1, 2003. The Borough intends to use a \$5 million U.S. Department of Defense grant to repay a portion of amounts borrowed.

12. LONG-TERM DEBT AND SUBSEQUENT EVENTS (continued)

On October 3, 2000, the voters of the Fairbanks North Star Borough approved bond propositions totaling \$20,450,000 for renovations and upgrades to Hutchison Vocational-Technical High School and to five other schools, plus improvements to playgrounds at several elementary schools. On December 7, 2000, the Borough sold the first \$9,000,000 of these bonds. On January 11, 2001, the Borough sold an additional \$9,050,000 of these bonds.

School District Component Unit Long-Term Debt - The School District has \$2,025,353 in liabilities for compensated absences at June 30, 2002. The current portion of this balance is \$1,857,351.

On October 8, 2002, the voters approved bond propositions totaling \$42,284,000 to replace two elementary schools and for capital maintenance and upgrades to school facilities throughout the School District.

13. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Borough to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the landfill site for fifty years after closure. Landfill closure and postclosure care costs, and their related liability, are recognized in the solid waste disposal enterprise fund and are based on the amount of landfill capacity used during the year. As of June 30, 2002, the estimated liability for landfill closure and postclosure care costs was \$7,668,000, which was based on 77 percent of the landfill used (filled) to date. It is estimated that an additional \$2,228,000 will be recognized as closure and postclosure expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2012). The estimated total cost for future landfill closure and postclosure care (\$9,896,000) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2002. However, the actual cost of closure and postclosure care may be higher or lower due to inflation or deflation, changes in technology, or changes in landfill laws and regulations.

On December 11, 2002, \$14,000,000 of bonds were sold, the remaining \$11,400,000 of bonds authorized in 2000 and the first \$2,800,000 of the bonds authorized on October 8, 2002.

Enterprise Proprietary Long-Term Debt - The long-term debt in the Borough's enterprise proprietary funds at June 30, 2002 is as follows:

Solid waste disposal enterprise fund		\$ 7,588,000
Landfill closure and postclosure care liability (see Note 13)		
Loan payable		
\$6,857,909 of Alaska Clean Water loan drawdowns, interest		
accrued of 2.5% commenced May 1999 on project-to-date drawdowns		
Payments due in ten annual installments beginning January 1, 2003		6,857,909
		<u>\$14,445,909</u>

The following is a summary of changes in enterprise proprietary funds' long-term debt for the year ended June 30, 2002:

	Landfill Closure and Postclosure Care	Loan Payable	Total
Payable at July 1, 2001	\$ 7,465,280	\$ 6,717,278	\$ 14,182,558
New debt		140,631	140,631
Change in estimate	<u>122,740</u>	<u>140,631</u>	<u>263,371</u>
Payable at June 30, 2002	\$ 7,588,000	\$ 6,857,909	\$ 14,445,909

The Fairbanks North Star Borough is required by state and federal laws and regulations to demonstrate financial responsibility for future closure and postclosure care costs by meeting the requirements of a specially designed local government financial test. This test includes a financial component, a public notice component, and a record-keeping component. The Fairbanks North Star Borough is in compliance with these requirements at June 30, 2002.

While not required by state or federal laws and regulations, the Fairbanks North Star Borough Assembly established a Landfill Closure Reserve Fund account in 1994. Beginning in fiscal year 1994-95, \$440,000 has been contributed annually to this account. The Landfill Closure Reserve is accounted for as a separate cost center within the solid waste disposal enterprise fund and has a balance of \$3,402,459 at June 30, 2002. Additional yearly contributions are anticipated. It is also anticipated that future inflation costs will be financed in part from earnings on these contributions. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure care requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

In 1997, the Borough negotiated a \$10 million Alaska Clean Water Fund agreement with the State of Alaska Department of Environmental Conservation (ADEC) for construction of a 36-acre solid waste landfill expansion (call 1 and call 2). In 2001, ADEC made an additional \$2.5 million of loan funds available to the Borough for call 2 completion. Interest accrued of 2.5 percent commenced one year

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

14. COMMITMENTS

The Fairbanks North Star Borough's capital improvement and other multi-year programs in effect at June 30, 2002 contain authorizations for hundreds of projects. These authorizations include \$176,790,470 in the four active capital projects funds and \$33,897,269 in the four enterprise funds. Unexpended authorizations total \$47,220,331 and \$16,876,289 in the capital projects and enterprise funds, respectively.

The projects undertaken in the capital projects funds include Borough facilities, fire and emergency medical services, public athletic and recreational sites, roads, School District projects, and sewer and utilities. In the enterprise funds, projects include facilities and major equipment, air quality initiatives and mass transit assistance, development of real property for sale, and solid waste landfill expansion.

The Borough has hundreds of commitments for architectural, engineering, and construction services under various continuing contracts that are recorded as encumbrances. (See Note 19, Segment Information, for enterprise fund encumbrance amounts.) Funding sources for the capital improvement and other programs include general obligation bonds, state revenues, federal revenues, contributions from the general and special revenue operating funds, and retained earnings of the enterprise funds.

15. CONDUIT DEBT

From time to time, the Borough has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Borough, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

In July 1994, a nonrecourse revenue bond for the Greater Fairbanks Community Hospital Foundation, Inc. was authorized with an aggregate principal amount of \$7,990,000. The outstanding balance as of June 30, 2002 was \$2,416,528.

16. CONTRIBUTED CAPITAL

Changes in contributed capital of the enterprise funds during the year were as follows:

	Transfer	Land	Carlson Center	Solid Waste Disposal	Total
Contributed capital, June 30, 2001	\$2,687,270	\$14,065,270	\$10,947,996	\$12,630,823	\$41,311,367
Capital grant contributions	225,857		35,089		260,756
Disposition of fixed assets	(20,645)				(20,645)
Acquisition of fixed assets	258,360		60,135		318,504

FAIRBANKS NORTH STAR BOROUGH  
Notes to Financial Statements (continued)  
June 30, 2002

16. CONTRIBUTED CAPITAL (continued)

Asset transfers from general fixed assets	\$ 119,798	\$	\$	2,188	\$ 121,964
Valuation of enrollment lands		805,023			805,023
Depreciation on fixed assets funded by contributed capital	(194,797)		(19,059)		(213,856)
Contributed capital, June 30, 2002	\$2,885,650	\$15,870,293	\$10,575,170	\$12,832,981	\$42,914,114

17. RESIDUAL EQUITY TRANSFERS

Residual equity transfers are nonrecuring or nonroutine transfers of equity between funds. During fiscal year 2001-2002, \$150,000 was transferred into the general fund from the Carlson Center enterprise fund. A summary of residual equity transfers for the fiscal year ended June 30, 2002 follows:

Fund/Enterprise Group	Transfers Out	Transfers In
General fund	\$	\$ 150,000
Carlson Center enterprise fund	\$150,000	\$
	\$150,000	\$150,000

18. FUND BALANCE - SCHOOL DISTRICT COMPONENT UNIT AND BOROUGH FUND BALANCE DESIGNATED FOR EDUCATION

The School District's governmental funds financial statements can be obtained from the District's Department of Administrative Services (see note 1A). These statements reported combined ending fund balance of \$23,215,235, an increase of \$2,804,386 over the prior year. Of this increase, \$1,768,000 was due to a restatement of beginning fund balance (for compensated absences) and \$1,136,386 was the result of current year operations. Of the total combined ending fund balance, \$819,383 is reserved for encumbrances, \$615,551 is reserved for inventories, and \$10,282,681 is reserved impact aid funding received in advance for fiscal year 2002-03. The remaining \$11,397,640 of fund balance is unreserved.

During the fiscal year ending June 30, 2002, the Borough Assembly designated \$1,000,000 for education.

19. ENTERPRISE FUNDS - SEGMENT INFORMATION

The Fairbanks North Star Borough maintains four enterprise funds that provide public transportation services, manage Borough-owned lands, oversee the operation of the John A. Carlson Community Activity Center, and provide solid waste disposal services at the Borough landfill. Segment information for the year ended June 30, 2002 is as follows:

19 ENTERPRISE FUNDS - SEGMENT INFORMATION (continued)

	Trust	Land	Carlson Center	Solid Waste Disposal	Total
Operating revenues	\$1,117,655	\$623,803	\$55,674	\$4,665,021	\$6,662,353
Operating expenses:					
Depreciation	315,376	276	546,662	2,420,052	3,282,388
Other	3,601,187	958,471	714,000	2,717,352	7,991,011
Operating loss	(2,798,710)	(334,646)	(1,205,008)	(272,383)	(4,611,047)
Non-operating revenues:					
Operating and fare grants	371,455	none	none	none	371,455
Other	46,853	170,038	27,209	831,731	1,175,831
Operating transfers to	2,215,820	none	784,510	none	3,000,330
Operating transfers out	(2,709)	none	none	none	(2,709)
Net income (loss)	(107,101)	(164,000)	(392,289)	359,346	(386,040)
Fixed assets:					
Additions/transfers in	967,058	none	125,781	1,003,695	2,116,724
Deletions/transfers out	(154,039)	(750)	none	(67,470)	(222,268)
Net working capital	888,039	12,340,705	906,978	14,847,933	28,979,742
Land inventory	none	2,227,670	none	none	1,733,220
Long-term receivables	none	1,733,229	none	none	61,807,400
Fixed assets	4,122,861	16,469,147	11,430,379	29,784,992	
Long-term unrealized gain	none	445,052	none	none	445,052
Capital losses payable	none	none	none	126,399	126,399
Liability closure and post-closure care liability	none	none	none	7,588,000	7,588,000
Long-term liabilities payable	none	none	none	5,280,185	5,280,185
Encumbrances	23,005	140,709	none	1,195,265	1,359,669
Total equity	3,707,651	15,662,711	11,405,776	14,296,381	45,272,519

20. LIBRARY EXPENDABLE TRUST FUND

The Fairbanks North Star Borough Public Library was a 15 percent beneficiary of two trusts. One of the trusts was dissolved in March 2000. The remaining trust provides that, for a period of 15 years beginning September 10, 1987, income and principal may be distributed to the beneficiaries. The 15<sup>th</sup> year after September 10, 1987, income and principal may be completed no later than September 10, 2005 (18 years later). Income received from both trusts is recorded as donations in the Library Expendable Trust Fund and \$2,530,542 had been received as of June 30, 2002. The Library's share of the carrying value and market value of the remaining trust's net assets yet to be distributed to the Borough was \$2,214,211 and \$3,815,314, respectively, at June 30, 2002, as reported by the trust's trustee.

20. LIBRARY EXPENDABLE TRUST FUND (continued)

FNSB Code 3.01.045 provides that all monies received from the two trusts shall be deposited into the Library Expendable Trust Fund and shall be deemed trust principal. The Code further states that the Trust Fund may not spend trust principal and may spend no more than 50 percent of all income from trust principal earned beginning April 30, 1980.

On March 14, 2002, the Borough accepted Ordinance 2001-20-2G which, notwithstanding the provisions of FNSB Code 3.01.045, appropriated \$200,000 from trust principal to fund the creation and construction of the Cheryl Bidwell Story Garden addition to the Noel Wien Public Library.

21. RISK MANAGEMENT

The Borough and its component unit, the School District, are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to, and illnesses of, employees and their dependents; and natural disasters. The Borough's risk management program includes both the Borough and the School District. The program employs various combinations of insurance policies provided by commercial carriers, self-insured retention amounts, and participation in a public entity risk pool, depending upon the type of risk. Pool coverage or commercial insurance with zero or small deductibles is secured for the following coverages: auto and general liability, property, and workers' compensation for fire service areas; general liability for road and street light service areas; physical damage to Borough vehicles; employee life insurance; and employee fidelity bonds. The program self-insures some portion of the following risk exposures: employee and dependent medical, auto and general liability, workers' compensation, errors and omissions/public officials, property, and employment practices. Pool coverage or commercial insurance has also been obtained for excess coverage above self-retention limits for all risk exposures except environmental. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Borough is a member of the Alaska Municipal League Joint Insurance Association (AMLJIA), a public entity risk pool formed to provide pooled property and liability insurance coverage to AML members at lower costs than would be available if the members obtained coverage on their own. The AMLJIA has the option of requiring supplemental contributions from its members if annual contributions and income earned thereon are not sufficient to cover AMLJIA's aggregate pooled losses and expenses for any coverage year. Due to the Borough's high self-insurance threshold levels, which are higher than most other pooled members' self-insurance threshold levels, the Borough has limited exposure to any supplemental contributions. No supplemental contributions have been required of members in the last two fiscal years, and none are expected for the coverage year ended June 30, 2002.

In addition, the Borough has designated fund balance in the amount of \$1,500,000 to provide resources for catastrophic losses up to self-retention limits, as well as to demonstrate financial responsibility to insurance carriers of excess coverage. The adequacy of this designated amount is re-evaluated periodically.

22. CONTINGENCIES

A. LITIGATION

The Borough and the School District, in the normal course of their activities, are involved in various claims, litigation, environmental matters, and tax assessment disputes and have accrued amounts they consider sufficient to cover settlements that may be payable as a result of unfavorable outcomes. An accrual is generally made when a potential loss is probable and the loss can be estimated, and for environmental matters, when the Borough has committed to a formal plan of action. Depending upon the circumstances and amount of a potential loss, an accrual may be made when the potential loss is only reasonably possible.

In the opinion of management and the Borough Attorney, the disposition of these matters is not expected to have a material positive or adverse effect on the Borough's financial statements. Accruals for claims and litigation covered by the Borough's risk management program, excluding environmental claims, are recorded as accrued self-insurance losses. Any environmental matters, and all other accrued claims and litigation, are recorded in accounts payable or estimated claims, judgments, and settlements payable.

B. GRANTS AND OTHER FINANCIAL ASSISTANCE

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, would become a liability of the general or other applicable funds. Disallowances, if any, cannot be determined at this time; but, in the Borough's opinion, any such disallowances would be immaterial.

21. RISK MANAGEMENT (continued)

Furthermore, in accordance with current labor contracts and Assembly ordinance, a cost center has been established in the local special revenue fund as a "Health Care Contingency Reserve Fund" (HCCRF). Contributions from employee payroll deductions of \$10 per pay period, along with an equal match from the Borough and interest earnings, are deposited into the HCCRF. The terms of the Fund also provide that the Borough deposit any budget in excess of health care costs into the HCCRF and that the Borough pay for any excess health care costs up to 105 percent of budgeted costs. Excess costs above the 105 percent are covered by the HCCRF. The undesignated fund balance of the HCCRF at June 30, 2002 is \$1,509,955.

The Joint Borough/School District risk management program is accounted for within the Borough's general fund with charges back to the School District and other funds. Self-insurance losses are incurred when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Accrued self-insurance losses include estimates for expected future development on claims already reported, as well as considering known and unknown events that might create claims, but for which none have been reported. Based on the type of claim, estimates of the ultimate cost of settling these claims are made by using a case-by-case review of claims or by extrapolating historical experience, and include specific, incremental claim adjustment expenditures, net of any recoveries. Both methods adjust for current trends and other information and the estimates include the effects of inflation and other economic and social factors.

Changes in the self-insured claims liabilities for fiscal years 2002 and 2001 follow:

	2001-02 Accrued Self- Insurance Losses	2000-01 Accrued Self- Insurance Losses
Borough July 1	\$ 825,956	\$ 826,124
Current year claims and changes in estimates	3,234,824	3,631,578
Claims payments	(3,154,517)	(2,633,736)
June 30	\$ 906,263	\$ 825,956
School District July 1	\$ 3,450,773	\$ 3,799,022
Current year claims and changes in estimates	16,162,279	13,689,408
Claims payments	(18,337,215)	(14,017,657)
June 30	\$ 3,495,837	\$ 3,450,773

FAIRBANKS NORTH STAR BOROUGH

Required Supplementary Information  
 Schedule of PERS Funding Progress  
 Pension and Postemployment Healthcare Benefits  
 June 30, 2002

(In 000's)

	Actuarial Valuation year ended, June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Excess of Assets over AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<b>Borough</b>							
Pension benefits	1998	40,872	37,428	3,244	109%	13,119	25%
	1999	43,984	39,625	4,359	111%	14,025	31%
	2001	49,908	49,068	838	102%	15,063	6%
Postemployment healthcare benefits	1998	16,221	14,928	1,293	109%	13,119	10%
	1999	17,832	16,064	1,768	111%	14,025	13%
	2001	21,131	20,776	355	102%	15,063	2%
Totals	1998	56,893	52,356	4,537	109%	13,119	35%
	1999	61,816	55,689	6,127	111%	14,025	44%
	2001	71,037	69,844	1,193	102%	15,063	8%
<b>School District</b>							
Pension benefits	1998	81,519	80,246	1,273	102%	20,310	6%
	1999	64,939	62,871	1,968	103%	20,877	9%
	2001	75,357	73,828	1,531	102%	22,307	7%
Postemployment healthcare benefits	1998	24,535	24,027	508	102%	20,310	3%
	1999	26,328	25,528	798	103%	20,877	4%
	2001	31,908	31,258	648	102%	22,307	3%
Totals	1998	86,054	84,273	1,781	102%	20,310	9%
	1999	91,265	88,489	2,766	103%	20,877	13%
	2001	107,263	105,084	2,179	102%	22,307	10%

## APPENDIX B BOOK ENTRY SYSTEM

*The following information has been provided by DTC. The Issuer makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose, trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds and DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

## APPENDIX C CONTINUING DISCLOSURE UNDERTAKING

By Ordinance No. 2003-81 of the Borough, passed on December 03, 2003 (the "Bond Ordinance"), the Borough has undertaken for the benefit of the owners and beneficial owners of the Borough's General Obligation School Bonds, 2004 Series G, in the aggregate principal amount of \$14,164,000 ("Bonds"), as follows:

### Undertaking to Provide Ongoing Disclosure

A. Contract/Undertaking. Section 18 of the Bond Ordinance constitutes the Borough's written undertaking for the benefit of owners of the Bonds as required by Section (b)(5) Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934 (the "Rule").

B. Financial Statements/Operating Data. The Borough agrees to provide or cause to be provided to each NRMSIR and to the State Information Depository for the State of Alaska, if one is created, (the "SID"), in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2004 for the fiscal year ended June 30, 2003):

1. Annual financial statements, which may or may not be audited, showing ending fund balances prepared in accordance with generally accepted accounting principles applicable to governmental entities and generally of the type included in Appendix A of the official statement for the Bonds and titled "General Purpose Financial Statements;"
2. The assessed valuation of taxable property in the Borough;
3. Property taxes due, property taxes collected and property taxes delinquent;
4. Property tax levy rates per \$1,000 of assessed valuation; and
5. Authorized, issued and outstanding general obligation debt of the Borough.

Items 2-5 shall be required only to the extent that such information is not included in the annual financial statements.

The information and data described above shall be so provided on or before the expiration of nine months after the end of the Borough's fiscal year. The Borough's fiscal year currently ends on June 30. The Borough may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating

data, the Borough may cross-reference to other documents provided to the NRMSIRs, the SID, if any, or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the Borough shall provide the Borough's audited annual financial statement prepared in accordance with generally accepted accounting principles applicable to governmental entities from time to time when and if available, to each then existing NRMSIR and the SID, if any.

C. Material Events. The Borough agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to the rights of Bond owners;
8. Bond calls (optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to the SEC's Exchange Act Release 34-23856);
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds;
- and
11. Rating changes.

Solely for purposes of disclosure and not intending to modify this undertaking, the Borough advises that no debt service reserves secure payment of the Bonds, there are no credit or liquidity providers, and no property secures the repayment of the Bonds.

D. Notification Upon Failure to Provide Financial Data. The Borough agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB, notice of its failure to provide the annual information described in subsection B above on or prior to the date set forth in subsection B above.

E. Termination/Modification. The Borough's obligations to provide the annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this undertaking shall be null and void if the Borough (i) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires such provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds; and (ii) notifies each NRMSIR and the SID, if any, of such opinion and the cancellation of such provision.

Notwithstanding any other provision of this undertaking or the Bond Ordinance, the Borough may amend this undertaking with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any amendment of this undertaking, the Borough shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borough. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section C of this undertaking, and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) complying with applicable requirements of the body that established the changed accounting principles between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

F. Bond Owner's Remedies Under This Section. The right of any Bond owner or beneficial owner of Bonds to enforce the provisions of this section and the agreement hereunder shall be limited to a right to obtain specific enforcement of the Borough's obligations hereunder, and any failure by the Borough to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under this ordinance. For purposes of this section, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, including persons holding Bonds through nominees or depositories.

**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**

March 29, 2004

Fairbanks North Star Borough  
Fairbanks, Alaska

Morgan Stanley DW Inc.  
San Francisco, California

Re: Fairbanks North Star Borough, Alaska  
General Obligation School Bonds, 2004 Series G—\$14,164,000

Ladies and Gentlemen:

We have acted as bond counsel to the Fairbanks North Star Borough, Alaska (the "Borough"), and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Borough of its General Obligation School Bonds, 2004 Series G, in the aggregate principal amount of \$14,164,000 (the "Bonds"), issued pursuant to Ordinance No. 2003-81 of the Borough, passed by the Borough Assembly on January 8, 2004 (the "Bond Ordinance"), for the purpose of providing funds to pay for certain school capital projects approved by Borough voters at an election held on October 8, 2002.

The Bonds are subject to optional redemption as provided in the Bond Ordinance.

As to questions of fact material to our opinion, we have relied upon representations of the Borough contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination it is our opinion, as of this date and under existing law, that:

1. The Bonds have been legally issued and constitute valid general obligations of the Borough, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. By the Bond Ordinance, the Borough has covenanted that, unless the principal of and interest on the Bonds are paid from other sources, it will levy taxes annually without limitation as to rate or amount upon all property within the Borough subject to taxation in amounts sufficient to pay such principal and interest as the same

shall become due. The full faith, credit and resources of the Borough are irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of such principal and interest.

3. Interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Bonds are not private activity bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the Borough comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Borough has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds have not been designated "qualified tax-exempt obligations" pursuant to Section 265(b) of the Code.

4. Interest on the Bonds is exempt from taxation by the State of Alaska, except for transfer, estate and inheritance taxes and except to the extent that inclusion of such interest in computing the corporate alternative minimum tax under Section 55 of the Code may affect the corresponding provisions of the State of Alaska corporate income tax.

Except as stated herein, we express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement). We express no opinion relating to the undertaking by the Borough to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By

David O. Thompson

**APPENDIX E**  
**BOND INSURANCE AND**  
**FINANCIAL GUARANTY INSURANCE POLICY**

**DESCRIPTION OF THE INSURER**

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the Borough as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

**General**

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-eight other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore. The Insurer has a license application pending with the State of Wyoming, the only state in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

## **Reinsurance**

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the this policy.

Based on the audited financials of XLFA, as of December 31, 2003, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$831,762,000, \$401,123,000, \$39,000,000 and \$391,639,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Review with Negative Implications), XLI's insurance financial strength rating is "Aa2" by Moody's, "AA-" by Standard & Poor's and "AA" by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the Bondholders.

## **Financial Strength and Financial Enhancement Ratings of XLCA**

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

### **Capitalization of the Insurer**

Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total capital and surplus of \$122,307,972 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the unaudited statutory financial statements for XLCA as of December 31, 2003 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$329,701,823, total liabilities of \$121,635,535 and total capital and surplus of \$208,066,288 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

### **Regulation of the Insurer**

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the

maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

**THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THIS POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.**

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

# **XL** CAPITAL ASSURANCE

1221 Avenue of the Americas  
New York, New York 10020  
Telephone: (212) 478-3400

## **MUNICIPAL BOND INSURANCE POLICY**

**ISSUER:** [            ]

**Policy No:** [            ]

**BONDS:** [            ]

**Effective Date:** [            ]

**XL Capital Assurance Inc. (XLCA)**, a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

Cover illustration based on an original photograph by James Brady

OFFICIAL STATEMENT CERTIFICATE

I, MICHAEL E. LAMB, Chief Financial Officer of the Fairbanks North Star Borough, Alaska (the "Borough"), acting in my official capacity, DO HEREBY CERTIFY that to the best of my knowledge and belief, and after reasonable investigation: (a) neither the Official Statement for the General Obligation School Bonds, 2004 Series G, of the Borough in the principal amount of \$14,164,000, nor any amendment or supplement thereto, contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; nor (b) has there been any material adverse change in the operation or financial affairs of the Borough or relating to the economy of the Borough since the date of such Official Statement.

Execution of this certificate constitutes execution of the final Official Statement.

DATED as of this 29th day of March, 2004.

FAIRBANKS NORTH STAR BOROUGH,  
ALASKA

A handwritten signature in black ink, appearing to read 'M.E. Lamb', is written over a horizontal line.

Michael E. Lamb  
Chief Financial Officer